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BY

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BIOGRAPHICAL NOTE

Fabian Franklin was born in Eger, Hungary, January 18, 1853. He came to this country in 1857. After graduating at George Washington University, in 1869, he engaged in civil engineering and surveying. In 1876 he became one of the group of students who gathered in Baltimore at the founding of Johns Hopkins University. He was a fellow at Johns Hopkins 1877–9, associate, associate professor, and professor of mathematics, 1879–95. He was editor of the Baltimore *News*, 1895–1908, and since 1909 has been associate editor of the New York *Evening Post*.

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COST OF LIVING

CHAPTER I

THE HIGH-PRICE PERIOD

THE high cost of living has been one of the foremost subjects of general concern, general discussion, and general complaint, for a number of years, not only in our own country, but in Europe as well. The central fact which is at the bottom of this concern and discussion and complaint is disputed by nobody. There is more or less room for dispute as to whether "high cost of living" is the best description for that fact; and in some degree at least the designation is misleading. But it is an undisputed and indisputable fact that in recent years there has taken place a very great rise in the general level of prices—that, for nearly all the things that people pay out their money to get, they have been having to pay more money than they did some years ago. It has been taking more dollars, more francs, more marks, more shillings, to pay for a given quantity of meat, or flour, or cloth, or coal, or bricks, or lumber, or nails.

For this phenomenon, taken in itself, the phrase "high cost of living" would be a very misleading designation indeed. If it so happened that the price of everything had increased in the same ratio, including in "everything" the price of labor and of personal services in general, the rise in the general level of prices would not mean, in any real sense, a rise in the cost of living at all. If the price of every commodity had risen by 60 per cent., and at the same time wages and salaries of all kinds had also risen by 60 per cent., then—at least so far as the wage-earning and salaried classes were concerned—living would not "cost" any more than it did, in any substantial meaning of the word. A mile is about 60 per cent. more than a kilometre; and if we were suddenly to adopt the metric system, but preferred to keep the good old name of "mile" to denote what the French call a kilometre, we should have to walk sixteen miles where we now walk ten, but the walk would not be a whit more fatiguing nor take a whit more time. And if every man got to-day sixteen dollars for the same work for which he used to get ten, he could pay 16 cents instead of 10, $1.60 instead of $1.00, without finding that living "cost" him any more in the

shape of labor, or economy, or thought, than it had done before.

However, this is not what has happened. Prices have risen very irregularly; the price of some commodities has remained stationary, that of others has risen but little, while the price of some—and especially many of those most important to the working people—has risen a great deal. The price of labor—in other words, the rate of wages as paid in money—has risen considerably; but as a rule wages have probably risen distinctly less than has the general level of the prices of those things which the working people have to buy with their wages. Moreover, even where wages have risen enough to balance the rise of prices, the rise has been slow in the case of wages and quick in the case of prices of commodities, so that in the interval the wage-worker has suffered. This is still more true—speaking generally—of salaries; the salaried man is apt to have to content himself with the same fixed number of dollars he has been getting for years after the dollar has ceased to have the purchasing power that it had formerly enjoyed. And there is another large class, which we have thus far overlooked, that is in even worse case. Those

who receive incomes absolutely fixed—interest on long-time bonds, ground rents, annuities, etc.—have to take without a murmur the falling-off in the purchasing power of the dollar, for there is no way for them to obtain an increase in the number of dollars coming to them. Thus, as a matter of fact, there is no doubt that the rising prices of recent years have meant, to great multitudes of people, a real increase in the cost of living; and indeed to millions of people, on both sides of the Atlantic, it has been a grave hardship and a serious grievance.

Nevertheless, it is well to remember that the central fact in the situation has been a rise of *prices*, and that in so far as there has been a real and substantial rise in the *cost of living* this has been a consequence of the rise of prices. The point has much more than "academic" importance. People have fallen into the habit of speaking of the high cost of living as though it were somehow an inherent part of the present-day development of civilization—something bound up with the general trend of things in our economic organization. In a measure, possibly in a considerable measure, this may be so; we shall look into this question, to some extent, further on. But if we are to have

clear ideas on the subject, we must begin by looking at it in the large. And in the large, what has taken place is a general rise of *prices;* what people are complaining of is that the dollar will not buy as much as it used to buy.

Now, so far from this being an inherent part of the general economic conditions of the present age, it is an extremely recent development. The level of prices began to rise less than twenty years ago, and the rise began to be serious only about ten years ago. But even this does not begin to do justice to the facts. When prices began to rise, in 1897 or 1898, they began to rise, not from a normal point, but from a point abnormally low. So short is the public memory in such matters that it is safe to say that not one person in twenty nowadays stops to think of the way in which, up to 1897 or thereabouts, the air had been filled for years with lamentations over the *lowness* of prices; and probably not one person in a hundred, when told that prices have risen 40 per cent., or 60 per cent., or whatever it may be, over what they were twenty years ago, stops to ask whether prices twenty years ago were what may be called normal, or were very low in comparison with what they had been ten years or twenty

years before that. "The shrinking dollar" is what we are all thinking about to-day; but Mr. Bryan made his whirlwind campaign of 1896—and established his extraordinary hold on the attachment of millions of his countrymen—upon the issue of the "balloon dollar," the dollar whose value was rising so fast that it promised to go out of sight altogether. The "cross of gold" upon which he declared that mankind must not be crucified was simply the cross of low prices; it was the fact that wheat was selling at fifty cents instead of a dollar, and nothing else, that constituted the "crown of thorns" which was being pressed upon the brow of the Nebraska or Kansas farmer.

Some of the specific bearings of these vicissitudes in the price-level will be considered in another chapter; they are mentioned here solely to impress upon the reader the fact that the high-price period in which we are now living is of recent origin, and was immediately preceded by a period of precisely the opposite character; and since no fundamental change in the nature of the economic organization of the world has taken place in the interval, this must serve as a warning that the rapid rise of prices which has been witnessed in recent years is a

special phenomenon whose causes, whatever they may be, are not imbedded in the permanent, the underlying, elements of the existing order of society. It may be impossible to assign any limit either to the duration or the extent of the upward trend; it may be impossible to declare with confidence that a downward trend will be experienced at any time in the near future. But, on the other hand, if any man asserts that prices will continue to rise for an indefinite period, or even if he denies that they can possibly fall in a reasonably near future, the burden of proof is upon him to establish the truth of his assertion. In default of such proof—and it is not too much to say that no such proof has been forthcoming—we must look upon this period of rapidly advancing prices as a chapter of economic history which may come to an end at any time; and in discussing possibilities of the future must consider how the various economic classes may be affected, not only by a continuance of the recent tendency, but also by a slowing down of that tendency, by its disappearance, and even by its reversal.

CHAPTER II

PRICE AND COST

In the modern world—with the single important exception of the farmer's home supply of home-raised food—the things that any person acquires for his own use, possession, or enjoyment he acquires through the medium of money. He neither makes directly (except to a degree so small as to be negligible) the things that he desires to possess, nor does he acquire them by directly bartering the things which he does make for the things which he desires to have. He sells for money the things that he produces or the services that he performs, and with that money he buys the things that he wishes to possess, enjoy, or consume. Accordingly it is in terms of money that we habitually speak when we wish to measure the abundance or the niggardliness with which any particular kind of service is rewarded, the value of any commodity, the ease or the difficulty with which any desired object may be obtained. It requires only a

little effort of thought to go behind this measure of value, of reward, of cost; but even that slight requirement is not automatically fulfilled. When we do not stop to make it, we are prone to think of a rise of the *price* of anything—an increase in the number of dollars one has to pay for it—as though it necessarily meant an increase in the real *cost* of it.

But the real cost of a thing to any particular person is not to be measured by the money he paid in order to get the thing. The money he spent for it he first had to get; and what the thing really and truly *cost* him was not that money, but what he had to give to *get* the money. The *form* of barter has disappeared through the intervention of money; but the *essence* of barter remains. The part played by money in the carrying on of the world's work is of incalculable service to mankind; of all labor-saving contrivances it is the most potent, the most pervasive, the most invaluable. But it is, after all, only a labor-saving contrivance. It does infinitely better, and infinitely more economically, what barter could only do in a clumsy way and at a cost so great as, in the vast majority of cases, to be absolutely prohibitive; but the nature of the thing accom-

plished is absolutely the same. The farmer sells his produce, the common laborer or the skilled mechanic his work, the professional man his expert services, even the business man the exercise of his ability and energy and judgment and enterprise, primarily for money; but the money is prized, not for itself, but for what can be bought with it. At the end of the account it is not for money that we have given the commodities which we have produced or the labor which we have expended or the services which we have performed; we have bartered them for other commodities, other labor, other services. If the things which a given individual requires for his "living" have risen in price—in the number of dollars that have to be paid for them—while the things whereby he *gets* his money have not risen in price, or have risen in a less degree, then for that individual there has been a rise in the cost of living; otherwise not.

Now there is no doubt that in this substantial sense there has been a serious rise in the cost of living for large classes of the population. Perhaps the class most obviously affected in this way is that of public officials whose salaries are fixed by law. The law can raise these salaries, to be sure, and in many instances it

has done so. But there is, in general, a great deal of hesitation about making such a change, and justly so, for an official salary, once raised by law, cannot be lowered without the very greatest difficulty; and yet it is possible that the level of prices may in the future recede to what it has been in the past. It is safe to say that, as time goes on, if prices remain at their present high level or rise still higher, one after another of the various classes of salaried employees of the public will have their salaries raised to correspond; indeed that process has evidently been going on in a halting and irregular way. In the meanwhile, those people suffer a very real hardship in the shape of a substantial increase of their cost of living; they have to pay more money for the same goods or services, and the money that they get for their own services is no more than before. There is, indeed, one consolation for them, or for such of them as are of a philosophical turn of mind. They lag behind other classes in getting an increased price for their services at a time of rising prices, owing to the slowness of legislation to make the necessary adjustment; but by the same token they will lag behind other classes —and probably in an even greater degree—in

getting the price of their services reduced when a time of falling prices sets in. What public salaries were reduced during the twenty years or more of falling prices which came to an end about 1897?

What is true of the salaried public employee is in a great measure true also of the salaried man in private employment. The employer hesitates long to advance salaries, knowing that any such advance is apt to be regarded as permanent; and, moreover, it is seldom easy for the salaried man to bring pressure to bear upon his employer, owing to the many obstacles that have to be encountered in finding a new position. To the employer the advance is a thing not to be lightly granted, owing to the difficulty or unpleasantness of undoing it if times change; to the employee it is a thing not to be lightly demanded, owing to the personal character of the relation and the great uncertainty of the prospect of establishing a similar relation elsewhere. So here again the salaried man must, in a period of rising prices, suffer for a long time, without remedy, the hardships of a real increase in the cost of living; but if at last the remedy is applied—if at last his salary is raised to correspond—he bids fair to experience, in a time of

falling prices, a gain of somewhat the same extent, owing to similar reasons operating in the opposite direction.

The case of those who work for daily wages, while bearing considerable resemblance in kind to that of the salaried classes, differs materially from it in degree. There is here suffering of the same nature, and brought about by causes of the same general character; but adjustment is not so difficult and is apt to be far more rapid. Fluctuations in rates of wages being a matter of common occurrence even when no notable change has taken place in the general level of prices, the pressure for a compensatory adjustment when such a change *is* taking place meets with no extraordinary obstacle. Employers do not, as a rule, grant the advance immediately the reason for it makes its appearance; but neither do they look upon the making of it as a step whose consequences they are bound to feel for a long future. Workingmen, on their part, do not strike the very moment they begin to feel something of the pinch of high prices; but they will not bear it long without making a determined effort to have their wages raised. There is a struggle, to be sure; the rise of pay is very apt to lag behind the

rise of prices; but the interval is not so great as in the case of the salaried classes. The "shrinking dollar"—which, by the way, is the same kind of thing, essentially, as the "cheap dollar," the dollar desired by the free-silver men or the Greenbackers—is a hardship to the wage-earner. It means a high cost of living to him during the entire time which is necessary for the requisite adjustment of wages to prices; and that time is apt to be of considerable duration.

Altogether different from the case of the salaried man or the case of the wage-earner is that of the independent producer or business man. A general increase of prices affects his money income as immediately as it does his money outgo. Indeed, speaking broadly, the effect upon his income is *more* immediate. For he gets at once a higher price for the goods he sells; and, while he also pays at once a higher price for the goods he buys, he does not at once pay a higher price for labor, for rent, and for many other factors of business, such as freight, postage, gas, electricity, etc. Taking producers and business men as a class, and supposing all prices to rise by a uniform percentage, this class would, during the period of adjustment, gain what the salaried and wage-

earning classes lost—and somewhat more, owing to the comparatively fixed character of the rates governing expenditures of the sort above referred to. Accordingly, a time of rising prices would, for this class, not be a time of rising cost of living, but quite the reverse. The net money income of their business would be increased by a greater percentage than the net money outgo which is required for their "living."

As a matter of fact, prices, of course, do *not* rise uniformly. Some are very slow to rise at all; others fail to rise to the average amount; still others rise much more than the average. It is, however, fairly safe to say that producers and business men as a rule are gainers in a period of rising prices; in the main, the question is not whether they gain, but how much they gain. And of course those classes of producers gain the most whose product has risen most in price. During the present high-price period there is no doubt as to the status in this regard of one very large class of producers. The price of food products has risen far more than has the general run of prices; and the farmer has waxed fat accordingly. If a considerable part of the rise has been intercepted by the middlemen, there is no reason to suppose that the *percentage* inter-

cepted has been any greater than before; while the farmer's expenditure for labor has risen in a far smaller ratio than the price of his products; and the expense of transportation (which is of the same nature, so far as the farmer is concerned, as the portion of the price of his product that goes to the middleman) has hardly risen at all. The consequence is that, whereas twenty years ago the word "farmer" was habitually associated in the American mind with the word "mortgage," the experimental psychologist would find to-day that the ideas most promptly brought up by its mention would be those of the automobile, the Victrola, and the player-piano. For the farmer, speaking generally, this is not a time of high cost of living, but of high income and easy acquirement of comforts and luxuries not dreamed of in his philosophy a quarter of a century ago.

It is less easy to set down what has happened to manufacturers, and merchants, and men in financial lines of business, as a consequence of the rising prices of the past twelve or eighteen years.* But even in cases where the

*The profound disturbance caused by the great war is, of course, entirely ignored in this discussion; nor is account taken of those temporary, and yet important, vicissitudes of business —bad times alternating with good times—which take place at intervals, whether prices be, in general, rising or falling.

scale of prices commanded by these classes has not risen, or has not risen as much as has the general level, it would be rash to pronounce that they have been losers, or even that they have not been gainers. In many lines of manufacturing, and of mercantile and financial business, there is a tendency toward lowering of the real *cost* per unit of output, or per unit of business; so that if prices all round were simply maintained at a constant level there would be to these people an increase of profit as years went by. This tendency arises, in the case of manufacturers, both from improvements in processes and from the increasing scale upon which operations are conducted; in the case of mercantile and financial business chiefly from the latter cause. Under ordinary circumstances —that is, when there is no great general rise in the scale of prices—competition tends to wipe out this extra profit through a reduction of prices in the domain immediately affected by the economies in question; the benefit of those economies tends to go to the consumer, leaving the manufacturer or dealer on the whole just about as well off as before. At a time of general advance in the price-level we have thus two opposing tendencies, one making for

higher prices and one for lower; the one required as a counterpoise for the general rise of prices, the other as a counterpoise for the special economies of the business in question. Thus it may perfectly well be that, though prices in a given line of industrial or commercial or financial business* have not risen, or have risen less than the general run of prices, yet the persons in that line have not suffered at all through the general rise; the compensatory rise for them having been balanced, in whole or in part, by the fall that would naturally have taken place in the ordinary course of economic development. But, while all these considerations complicate the question of how any given class of producers or business men have fared, they do not disturb the broad conclusion that

*There is something elliptical, and more or less vague, in speaking of the "prices" involved in commercial or financial business. To specify exactly what is meant would involve a degree of detail and complexity unsuited to this simple little book. But, broadly speaking, the "price" I have in mind is the price of the business man's part in the affair—the gross return he gets for transacting a given piece of business; from which gross return his net return is obtained by deducting the due proportion of his "overhead" expenses, as well as any direct expense involved in the particular piece of business in question. For example, the "price" that a wholesale merchant gets in the sale of a bill of goods through the agency of a travelling salesman is the difference between what he charges the retailer and what he himself paid for the goods; while his net return on the transaction is obtained by deducting a proper part of the salary and expenses of the travelling salesman and also a proper part of the rent, salaries, and general expenses involved in carrying on the business as a whole.

a period of rising prices brings no hardship upon these classes in general, but on the contary brings about an increase in their real gains. They experience a diminution in the real cost of their "living"; or at least they do so unless the particular things in which their "living" is embodied have risen in price very much more than have things in general. And in the present instance this last is certainly not to any great extent the case; since the only important products that have risen abnormally in price, namely food, constitute but a small proportion of the total expenditure of the well-to-do classes.

An incidental consequence of this prosperous state of the business classes at a time of rising prices should be mentioned here, for it mitigates to a not inconsiderable extent the evil effects upon the working people of the sluggishness of the rise of wages. Even before wages have risen in response to the pressure of rising prices—even, that is, during the time when the workingman's cost of living is rising because his daily money wages no longer purchase as much as they did—there is apt to be some compensation to him in the shape of greater regularity of employment. So long as wages have not risen and prices have, the employer makes an

unusual profit, and thus is stimulated to expand his business, or at least to keep it running on full time, when he might otherwise at intervals have shut down or relaxed his production. Sooner or later, this stimulus to production, this accentuated demand for labor due to increase in profits, normally brings about a rise in the rate of wages; but even before that comes about, the wage-earner, though his cost of living is undeniably increased, may find the burden of that increased cost somewhat lessened by a diminution of the losses he suffers through unemployment.

All the classes of incomes we have thus far been considering are incomes derived, day after day, or month after month, or year after year, as a result of activities put forward in those days, or months, or years. But there are several great classes of incomes which the possessors obtain in satisfaction of obligations due to them by others, obligations in many instances incurred years before, and continuing at a fixed money rate for years after. Interest on bonds issued by governments or corporations, interest on long-term mortgages, ground rents, either irredeemable, or having a long term of years to run, or redeemable at the pleasure of the lessee

at a fixed capitalization, are instances of this kind of income. In a time of rising prices every person whose income consists in whole or in part of this kind of revenue suffers through that rise an increase in the true cost to him of the things for which he spends his income. He gets the same number of dollars annually as though prices had not risen, and these dollars have less purchasing power than they had before; and this loss continues (supposing that the high prices continue) without any compensatory gain during the entire term for which the obligation runs.

Whether, at the end of that term, anything may be expected to happen which will restore such incomes to their previous actual worth, their previous actual purchasing power, is a highly interesting question. And, broadly speaking, the answer to that question is not difficult. But we must make a distinction—one that is very important, though often overlooked. The answer depends, of course, upon what may be expected to happen to the prevailing rates of interest; the investor in a mortgage or a bond gets back his principal at maturity, neither increased nor diminished, and his future income depends on the rate of interest

at which he can reinvest it. Now the distinction above referred to is the distinction between *high* prices and *rising* prices. High prices, as such—or low prices, as such—cannot affect the rate of interest at all. If all prices were doubled—permanently doubled, and known to be permanently doubled—that would set in motion no forces operating upon either lender or borrower to cause the rate of interest to be either greater or less than before. If the prevailing rate in a certain class of loans was 5 per cent. at the low level of prices, there is no reason why it should not be 5 per cent. at the high level. It is true that fifty dollars given as interest on a loan of a thousand dollars would have only half the purchasing power that fifty dollars had before; but so would the thousand dollars loaned have only half the purchasing power that a thousand dollars had before. So much for a time of *high* prices as such—stationary high prices. But it is different in a period of *rising* prices, and especially a fairly long period of somewhat steadily rising prices. In such a period the dollar paid as interest at the end of the year has less value—less purchasing power—than had one of the loaned dollars at its beginning; the discrepancy

becomes greater the second year, and so on; and, what is vastly more important, the principal, when returned at maturity of the loan, though it is the same number of dollars, represents a materially smaller value. In order that the lender shall have really and truly got back what he loaned, plus 5 per cent. interest on his money, it is necessary for him to get, *in dollars*, more than 5 per cent.—perhaps five and a half, or six, or seven. But, one may ask, is there any reason to suppose that this will really come about? What is going to actually cause the change? People don't reason these things out, it may be said; borrowers pay what they have to pay, and no more, without bothering their heads over the level of prices, and certainly without worrying over the ups and downs of the lender's true income. That is all perfectly true; but the forces making for the adjustment of the rate of interest to the realities of the case are at work none the less effectively, though they are not present in the consciousness of either party. What makes the rate of interest on a given class of loans or investments 5 per cent., or 4 per cent., or 6 per cent., is the attractiveness of the transaction to borrowers on the one hand and to lenders

on the other; and if the rate remained unchanged in a period of rising prices business borrowers would find by actual experience that borrowing was attended with greater advantage than usual and would want to borrow more, while business lenders would find that lending was attended with less advantage than usual (as compared with other ways of employing their money); thus the demand for loans would tend to increase and the supply of loans would tend to diminish. And equilibrium between supply and demand could only be reëstablished by a rise in the rate of interest—in other words, by an increase of the inducement to lend and a diminution of the inducement to borrow. It thus appears that although an unexpected rise of prices—an unexpected fall in the purchasing power of the dollar—has the effect of inflicting upon the lender of money at interest an uncompensated loss, this is not what will normally happen in a clearly marked period of rising prices; the loss on the true value of his principal will probably be counterpoised by a rise in the rate of interest. And the expectation thus justified by theoretical consideration seems to have been amply verified by experience. Thus the high rates of interest that have obtained

during the present period of rising prices on national, municipal, and railway bonds, and on such "gilt-edge" obligations as British consols, are in striking contrast with the low rates that ruled during the preceding period of falling prices—when, of course, precisely the opposite set of results were to be expected from the same considerations.

CHAPTER III

"COST OF HIGH LIVING"

In the preceding chapters attention has been drawn to the difference between high prices and high cost of living, and a brief survey has been made of some of the principal points practically involved in that difference. It has been seen that although high prices may not at all mean a high cost of living, yet in a period of rising prices they do mean that to a very large part of the population, and particularly to that part most seriously affected by a high cost of living—namely, the wage-earning and salaried classes—while there are other classes to which the rise of prices is a benefit instead of an injury.

In all this we have not really looked at the specific meaning of the phrase "cost of living" at all. We have tacitly assumed that the "living" in question is unchanged in character; and what we have been thinking of, in all our comparisons, is the variation that may have taken place in the cost of things in general—

not the cost of "living" in particular. The cost of "living" is of course subject to variation not only through a change in the cost of obtaining the selfsame set of things, but also through a change in the quality, or quantity, or kind, or range, of the things that constitute the "living"—or in a word, let us say, through a change in the standard of living. And if the standard of living rises—if the luxuries of yesterday are the necessities of to-day, in any given class of the population—then, other things being equal, the cost of living in that class must rise correspondingly. But obviously this kind of rise in the cost of living is totally different in nature from that which we have been discussing hitherto.

As a matter of fact, this very thing is taking place on a large scale, in almost every class of the population—probably in a greater or less degree in every class. Some persons have been so impressed with the widespread prevalence of this tendency that they have gone so far as to say that it constitutes the whole of that phenomenon which, under the name of high cost of living, has been so vexing the thought of the world; or so nearly the whole that the rest is of no serious importance. And this view has been

cleverly summed up in the epigram that the trouble is not with the high cost of living but with the cost of high living.

The phrase is not without value; but the view that it stands for is too manifestly false to require extended refutation. Much of the high cost of living that people complain of—very much, especially, of that which is complained of by those who have the least right to complain at all—is undoubtedly to be classed as cost of high living rather than as high cost of living; but to assert that all of it, or even a great part of it, in the case of the less fortunate classes, is of this nature is preposterous. When the price of eggs, and vegetables, and meats—especially pork and the cheaper cuts of beef—has risen 50 or 60 or 80 per cent., then unless and until this is counteracted by an increase in wages or salaries, workers with modest incomes suffer an increase in the cost of living which cannot be dismissed with an epigram. But there is another reason, even more conclusive, though less obvious and perhaps less tangible, for rejecting any such view of what has been taking place. It involves a fallacy which we shall have occasion to note in connection with several other phases of the cost-of-living discussion. This tendency

to better living, this gradual raising of standards, this subtle but steady growth of the list of things which, in any given walk of life, comes to be regarded as necessary to "living," is no sudden development of the last ten or twenty years. It has been going on as far back as anybody can remember. It has doubtless played its part in increasing the cost of living; but how comes it that nobody was talking about the high cost of living until within the last half dozen or dozen years? That tendency to inch up on your margin—to transmute economic advances into advances in the standard of living—has been with us all along; how is it that it is only just now—only in these last years—that there has arisen a world-wide chorus of complaint over the difficulty of maintaining the standard? Something *new* has happened; there is something in the situation that was not there before. And this something new is not the cost of high living, but the high cost of living. The fallacy—which, as has already been stated, we shall encounter again in a later chapter—is that of explaining a great and undeniable change by pointing to a factor which has been in operation all along, and whose intensity has either not been augmented at all, or at least has not been augmented in any

such extraordinary degree as would be requisite for the explanation.

It remains, however, to give some consideration to the degree in which, as a matter of fact, changes of the nature suggested by the phrase "cost of high living" really enter into what usually passes as high cost of living. Undeniably, there are many such. But here again we must distinguish. Few people are really deceived into confusing the one kind of increase with the other, when the former takes the shape of conspicuous additions to the list of living requirements, or even of striking and palpable improvements in point of quality. The complaint, indeed, that it costs more and more to live as one "is expected to live," or as one "has to live," is of almost immemorial standing among the comparatively well-to-do classes; but this rising scale of expenditure, due to women "needing" ten dresses instead of two, to men smoking expensive Havana cigars instead of cheap domestic ones or pipes, to the children being sent to high-priced private schools instead of the public schools, to the spending of long vacations at luxurious hotels instead of short holidays at simple country boarding-houses, to the keeping of automobiles and chauffeurs where not even a

carriage was kept before—this sort of thing everybody understands to be quite distinct from that high cost of living about which the world has recently been so peculiarly concerned.

But there are many insidious or inconspicuous changes of standard which do merge unnoticed with the general cost of living, and give it the appearance of having risen more than it really has. Some good illustrations of this may be found in that field in which the pinch of advancing cost has been most acutely felt, that of food prices. The case of milk is particularly striking. It is not necessary to cite statistics, or to appeal to official reports, in order to see that when we speak of the price of milk to-day we have reference to a very different thing from what we should have meant twenty years ago. The same class of people who were then getting their milk delivered from big cans, with no one knew what admixture of water (not to speak of accidental but more dangerous ingredients) now get it delivered in air-tight bottles, and of a virtually guaranteed degree of richness. No statistics could testify to the change with such convincingness as does the complete disappearance of the milkman joke from the funny columns of the newspapers; the gibe about the dairyman and

the pump is as much of a "back number" as the horse car. Bad eggs, too, which used to be almost as favored a subject for the newspaper jester as watered milk, are nearly as hard to find in the cheap restaurants of the modern type as good eggs were in their predecessors of twenty years ago. And while, as regards articles of food in general, there has been no such raising of the standards of quality, there has been a marked change in the conveniences of buying and delivery; part of the enhancement of the prices paid for provisions at retail is due to the wide prevalence of the custom of ordering by telephone and the very general practice of having every retail purchase delivered by the dealer at the purchaser's home. In any statistical study of the rise of the price of food these considerations are of sufficient importance to demand being taken seriously into account.

Concerning one of the very important elements of the cost of living for nearly all dwellers in cities, namely, house rent, very little has been ascertained by statisticians; and indeed very little seems to be said about it in discussions of the subject generally. It seems plain, however, that house rents have by no means shared in the general rise of prices to anything like the

average degree. However this may be, it is necessary to bear in mind that in this matter there is a pretty steady rise of standards which people are prone to overlook, and in consequence of this there may well be a rise in rates signifying not increasing price for the same thing, but advancing requirements in the character of the thing itself. Time was, and not so very long ago, when bathrooms were a luxury; they next became a very general requirement of comfort; and now they are regarded as almost an absolute necessity. With gas and electricity a similar story is being told; and hardwood finishings, and marble steps, and a dozen other little points are in the same case. Moreover, the smooth pavements which, on almost the humblest streets to-day, put to shame the pavements of our Fifth Avenues of half a century ago, the modern sewerage and street lighting, the activities of health departments, etc., have to be paid for in some way; the benefits of these things are shared by householders generally, and a good part of the cost is paid by householders in the shape of rent. Accordingly, it is likely that, whatever may have been the apparent average rise of rents, a not inconsiderable part of it is to be ascribed to a rise of standards.

But, after all possible allowance is made for factors of this nature—for those advancing demands which are made so insensibly that they are apt to escape notice—the bulk of the rise in the cost of living, as measured in money, remains. It is a real thing in the objective world, not a mere "state of mind"; and, unless counteracted in the case of any class by a rise in the money income prevailing in that class, it is a burden seriously affecting their lives. And it is only fair to add that, even as regards some elements of the "high cost of living" which clearly come, in a modest way, under the head of "cost of high living," there is a standpoint from which they may justly be regarded as forming part of the consequences of the general rise of the price-level. For in these modern days of constant development of science and invention, the tendency is to *reduce* the cost of a vast number of things that conduce to comfort or pleasure, and to place not only these, but other things unthought of before, within the reach of a large part of the population. A standard which, by the actual count of material things, is higher absolutely than that of ten years ago, may be no higher relatively to the productive efficiency of the world at the respective times. So much

of a rise of standard as would correspond, in a general way, to this increasing efficiency, might well be regarded as normal—as a mere matter of course; and to the actual increase of the cost of living at a stationary standard it might be claimed that an addition to cover this normal rise ought to be made, if we are to estimate correctly the full extent of what has happened in the way of high cost of living. That there is no method of computing this, it is hardly necessary to say; and numerical estimates of the increase in the cost of living are of course intended to relate to comparisons in which the same standard is assumed at the end as at the beginning of a period.

CHAPTER IV

VALUE OF THE DOLLAR

We have been having a good deal to say about a rise or fall in the "level of prices," a fall or rise in the "purchasing power of the dollar"—or, more briefly, in the "value of the dollar"—without troubling ourselves about the definition of these terms. When *all* prices are rising there is no need of a definition to assure ourselves that the level of prices is rising, or, what is the same thing, that the value of the dollar is falling. And if all prices have risen by precisely the same percentage there is no need of any definition in order to justify the statement that the price-level has risen by that same percentage, or the statement that the value of the dollar has fallen by a corresponding percentage. If all prices, for instance, were 25 per cent. higher to-day than they had been five years ago, then it would evidently be proper to say that the price-level had risen by 25 per cent., and that the value of the dollar had fallen by 20 per cent.; for a given

quantity of anything would sell for five fourths as many dollars as it did before, and a given number of dollars would buy four fifths as great a quantity of anything as it did before.

But prices never do vary in this uniform way; some rise or fall faster than others, and almost always some fall while others rise. If the increases of price are just balanced by the decreases, we ought of course to say that the price-level—the general price-level—has remained stationary; if the increases preponderate we should say that the price-level has risen; and if the decreases preponderate we should say that it has fallen. But what do we mean by all this? How are we to strike this balance, or to determine this preponderance? In order to do this, or even to attempt it with any reasonable approach to definiteness, we must settle upon some sort of definition of the terms we have been using.

Before we go on to this, however, it is worth while to point out that even without such definition it may be possible to speak of a rise or fall in the price-level—a fall or rise in the value of the dollar—as having actually taken place, although some prices may have fallen; and even to have a fair notion of the degree in which they have

risen, even though, besides some having fallen, those that have risen have risen in very different degrees. If it is evident that falling prices have been extremely exceptional, and that throughout a large range of the things most important to the great body of the population prices have risen by from 25 to 75 per cent., no refined examination of just what one ought to mean by "the price-level," or by "the value of the dollar," is necessary in order to justify the assertion that there has been a great rise in the one, a great fall in the other. And it is for this reason that we need not hesitate to make the kind of assertions that have been made in the preceding chapters concerning the present high-price period.

But now for the definition. Of course, what one has in mind in speaking of "the price-level" or "the value of the dollar" is the *average* of prices, the *average* purchasing power of the dollar. But it is far from easy to say what we mean by this "average"—quite apart from any statistical difficulties in actually determining it. Even if there were only a limited and definite number of things whose prices had to be taken into account, the proper meaning of the "average" of these prices would be a very open ques-

tion. If the price of a yard of silk fell from $1 to 50 cents, and at the same time the price of five pounds of beef rose from $1 to $1.50, it might in some sense be said that the average price of beef and silk had remained stationary; for you could continue to buy a yard of silk and five pounds of beef for $2 just as before. And so, if you set down a list of twenty things, noting the quantity of each that could be bought for $1 in 1900, say, and then set down the price that had to be paid for these same things in 1910, you could in some sense declare what had happened to the average of prices, or the average purchasing power of the dollar. If the sum of the amounts required to purchase the twenty things in 1910 was $25, one might say that on the average it took $1.25 in 1910 to buy what $1 had bought in 1900; and accordingly that on the average prices had risen 25 per cent., or the value of the dollar fallen 20 per cent.

But obviously this kind of average would have no proper relation to the realities of life if the twenty things were set down at random, without consideration of their relative importance and of their representative character. To go back to the illustration in which only two articles occurred, it would be manifestly absurd

to regard a fall of 50 cents in silk as really balancing a rise of 50 cents in beef. In order to get an average which shall be really significant, we must first select, out of the endless multitude of things that are bought and sold, a set that is fairly representative of the great bulk of human demands; and then we must endeavor to attach to each a weight that corresponds to the magnitude of the part that it plays in the general expenditure. This may be attempted in various ways; perhaps the simplest is to take (at the starting-point) not in each case the quantity that can be bought for a dollar, but in each case a quantity proportional to the aggregate amount actually expended upon each by the people as a whole. Thus (to go back for a moment again to the case of only two articles) if the annual expenditure of the country for beef is twenty times the annual expenditure for silk, we should set down the amount of beef (say 100 pounds) that can be bought for $20 and the amount of silk (say one yard) that can be bought for $1; then if the price of a yard of silk fell from $1 to 50 cents, this fall would be counterbalanced by the rise of 100 pounds of beef to $20.50; that is, by a rise of a mere half cent a pound in beef, instead of a rise of 10 cents a pound, as was

the case when we took no notice of the difference in importance between $1 spent on beef and $1 spent on silk. And in like manner, in a list of twenty or fifty or a hundred things we take such a quantity of each as corresponds (roughly, of course) to the amount of that thing actually demanded by the community; we set down the price that has to be paid for that quantity at the date chosen for a starting-point; then we set down the price that has to be paid for the same quantity of each at any other date; and we take the sum of the prices at the first date and at the second. If that sum is $1,000, say, at the first date and $1,250 at the second, then (assuming that the things chosen are sufficiently representative) we are fairly justified in saying that, on the average, it took $1.25 at the second date to buy what $1 bought at the first date; and therefore that the price-level (the average of prices) was higher by 25 per cent. at the second date than at the first, or that the value of the dollar (the average purchasing power of the dollar) was lower by 20 per cent. at the second date than at the first.

We shall look into this matter more closely in a subsequent chapter; here it will suffice to say that such terms as "the level of prices,"

"the purchasing power (or value) of the dollar," and the like, must be understood as having reference to averages based upon a combination of the prices of many things; these things being selected with a view to their being, taken altogether, fairly representative of all the things upon which money is expended; and such weight being assigned to each thing entering into the list as would correspond to the proportion which the expenditure for that thing, or for the group of things which it represents, bears to the entire expenditure of the people.

An average of prices so obtained may fitly be regarded as representing the general price-level and as measuring the value of the dollar. But it should be noted at once that this measurement, though desirable and useful, is by no means perfect. It gives us a far better idea of what has taken place than would a mere guess, and indeed for many purposes it is all that need be desired. But we must not forget that there is something arbitrary in the process of selection and in the process of weighting, in both of which much must be left to the judgment or instinct of the person performing the process. Nor is this all. However perfectly the process might be performed, it would still

not bring about a result that represented the true changes in the value of the dollar as these affect the various classes of the community. Taking the expenditures of the community as a whole, a certain proportion is devoted to what are commonly spoken of as necessaries of life, another to comforts, another to luxuries. But among the poor practically the whole expenditure goes to necessaries; among people in modest circumstances comforts enter to a large extent and luxuries very little; while among the rich luxuries perhaps absorb far more than comforts and necessaries combined. Accordingly, unless the price-level changes in approximately the same degree in these three groups of objects of expenditure, it may be that the movements of that level, if reckoned exclusively on the expenditure of the poor, or the moderately circumstanced, or the rich, might be very different from what they are when based on the entire expenditure of the community. So far, then, as any one of these classes of the population is concerned, it may be that the change in the value of the dollar is quite inaccurately reflected in the change in "the general level of prices."

Another question might be asked, affecting in quite a fundamental way the conclusiveness

of the price-level as a measure of the true value of the dollar; namely, the question whether labor itself—labor as such, and not as embodied in commodities—ought to be included in the list of things whose prices enter into the formation of our average. But we have to dismiss this very important point with a bare mention.

Before leaving this subject of the "value of the dollar," it seems worth while to make a brief reference to an episode in our political history which is not without instructiveness in this connection. All that we have been saying is mere commonsense; there is nothing mysterious or technical about it. Indeed, the objection which might most naturally be made to it is that it is too obvious to need setting forth at all. That is the criticism that is often made in regard to almost every one of the elementary truths of political economy; no sooner does a person get an understanding of what it is than he is tempted to dismiss it as a mere truism. As regards these things about "the value of the dollar," obvious and mere commonsense though they are, we have only to recall the days of the crucial Presidential campaign of 1896 to see the importance of having them explicitly set forth and firmly apprehended. The silver side and

the gold side in that contest, as represented by most of their spokesmen on the stump and in the press, vied with each other in the putting forward of views which the most cursory examination, from the standpoint of simple economic principles, would have shown to be absurd. But perhaps the palm, in this competition of absurdity, is to be awarded to the claim so often and so solemnly made by champions of the gold side, that the value of gold never changes. What they had in the back of their heads may have been the fact that a given weight of unminted gold can always be exchanged for the same weight of minted dollars, and vice versa; but what they actually asserted and insisted on—and what thousands of them believed—was that while the silver dollar was subject to great changes of value, the value of the gold dollar was fixed and invariable, like the length of the yardstick. No person who had ever given any thought to the true meaning of "the value of the dollar" could possibly have been guilty of so childish an error.

CHAPTER V

THE QUANTITY THEORY OF MONEY

ALL that has thus far been said has reference to the *nature* of the phenomenon of high prices—or the "high cost of living"—not at all to the *cause* of the phenomenon. As regards its cause, the first question that necessarily confronts us is as to whether the cause is to be found in changes relating to the things that are bought with money or in changes relating to money itself. If a rise or fall of price takes place with respect to a single commodity, or with respect to a comparatively small number of commodities or groups of commodities, while the great mass of prices are subject to no marked disturbance, evidently the cause of the particular change in prices that has taken place is to be sought in circumstances specially affecting the commodity or commodities in question. Thus a big rise in the price of copper, coincident with the enormous extension of the use of copper through the development of

the telephone and other applications of electricity, would at once be accounted for by this increase of demand unaccompanied by corresponding enlargement of the sources of supply. In like manner if great areas of grazing lands ceased to be available for the raising of cattle, while at the same time the population to be fed was increasing, there would be no difficulty in understanding why beef had risen in price. But the phenomenon which has been witnessed in the last eighteen years or thereabouts is that of a *general* rise in prices—a rise so general that even the things which have not risen in price can hardly be pointed to as real exceptions to the rule; for it must be remembered that there are many things whose price, under normal conditions, would have been falling, and falling considerably, as a result of improved processes and more efficient organization of production.

Now when *all* prices steadily rise throughout a considerable period, it is evident that a general cause is at work, and that this cause has to do not with commodities but with money. To be strictly accurate, we should attach one qualification to this assertion. If through some change in natural conditions, or in human character or institutions, the general produc-

tivity of mankind were diminished in all directions—if the total output *per capita* of all sorts of things were less than it has been—then it might be said that the fact that it took more dollars to pay for the same quantity of things in general was due to a change affecting the production of the things that are bought for money, and not to a change affecting money itself. But obviously this hypothetical case is so widely at variance with the facts of the present age that we may dismiss it without further consideration. A general rise of prices in our time can only mean a change of some sort or other in the matter of money. For any intelligent understanding, therefore, of the phenomenon of high prices it is indispensable to have some grasp of the fundamental principles that govern the value of money.

Into the exposition of these principles we cannot enter in detail; but it is possible in a brief compass to give the essentials of the matter. And while there are many complexities in the subject which we must (in however brief and rudimentary form) take into account, there will be no harm in ignoring one of them; namely, the existence in the world of two fundamental money metals, gold and silver. We shall dis-

cuss the subject as though the gold standard were universal; though perhaps at another point we may take into account the part actually played by silver.

Now suppose, to begin with, that all the money of a country consists of gold coin. At any given time, in that country, there exists a definite condition of things as to the extent and kind of its industry and commerce, the habits of its people in the transaction of business, the extent to which credit is resorted to, the ratio of the amount of money which people feel it necessary to have immediately accessible as compared with the whole amount of their possessions or the magnitude of their business—in a word, there exists a certain condition as to all those institutions and habits which determine what is called the rapidity of circulation of money, and the proportion of the amount of money that lies idle to the amount that circulates. With these characteristics of the nation given, the business of the nation can be carried on at a given scale of prices with a certain aggregate amount of money; and if that scale of prices be increased or diminished, the amount of money required to do that business will be greater or less in the same proportion. Let us

suppose, then, a given scale of prices to exist, and the amount of money in the country to be in correspondence with it; and then let us suppose an increase of 20 per cent. in the amount of money. It is evident that on the old scale of prices some of the money will not be required either for the transaction of business or for the keeping up of the usual reserves, whether in banks or strong boxes or lying loose in people's pockets; this surplus idle money will seek a use. And it can find no use, except in the purchase of things of one kind or another. The pressure of this new supply of money seeking a use will raise prices—possibly in a very irregular manner, but still will raise them. This process will continue until, some way or other, the level of prices, taken as a whole, will be raised by an amount sufficient to make use for all the money that has now become current. And, however irregular the process, it may be said in a general way that when equilibrium has been reëstablished the relative value of any two things (other than money) will be the same as before. That is, the *relative* prices of all commodities and services will be what they were before; but the *absolute* prices will have been raised by 20 per cent. Of course a like consideration

applies to the case of a diminution of the supply of money. This, then, is (in the simplest case) the quantity theory of money: that, given the nature and extent of a country's industries and the business methods and habits of its people, the value of money in that country varies inversely as its quantity—an increase or diminution of the quantity of money in any proportion—involves a rise or fall of prices in the same proportion. ?

Now, as a matter of fact, gold coins are far from being the only thing that serves as money in gold-standard countries, and we must consider the effect of the use of substitutes for it. Of these there is a great variety; but in the first place it is well to mention one kind of substitute for gold coins which belongs in a class by itself, and should not properly be thought of as a substitute at all. I refer to gold certificates. When the Government prints a certificate declaring that it has in its possession twenty dollars in gold, which will be delivered to the holder of the certificate on demand, the man who has the certificate virtually has the gold; and, what is quite as much to the purpose, the Government has not. Apart from the supposition, which is of course absolutely out of the question, that

the Government will turn out a common thief, the certificate, to all intents and purposes, *is* the gold; and it is the gold itself that changes hands every time the certificate changes hands. And the same thing is essentially true in the case of bank notes which—like all those of the Bank of England issued above a certain fixed limit—can be issued only against a gold deposit of the same amount.

Notes issued by the Government and redeemable in gold, but not necessarily representing an equal amount of actual gold held by the Government for their redemption, are substitutes for gold in a real sense, which gold certificates are not. The same thing is true of bank notes redeemable directly or indirectly in gold, but not having behind them an equal amount of gold actually reserved for the purpose. So long as notes of either of these kinds are not issued in excessive quantity, and pass current at their face value, the surplus of their aggregate amount over the amount of gold held in reserve for their redemption acts to all intents and purposes as would an addition of the same size to the stock of gold coins.

Next after these substitutes for gold, which are actually exchangeable for it at the desire of

the holder, may be considered substitutes for gold coins which circulate alongside of these, though they neither have the same intrinsic value nor are exchangeable for them on demand. The silver coins in most gold-standard countries belong to this category; their intrinsic value at the market rates for silver is far less than the number of gold dollars represented by them on their face, and they circulate as they do because for certain purposes they must be accepted by law at their face value. If the amount of them in circulation were so great as to cause people to entertain a doubt as to whether they would continue to pass from hand to hand at their face value, they would at once begin to depreciate; but so long as this is not the case, they act as an addition to the supply of money just as though—or just about as though—they were so much money in the shape of gold coins. And even irredeemable Government notes—bits of paper with no intrinsic value at all—may play this part, provided they are not issued in excess. It is a bad plan, and a dangerous one; but if the Government issues bits of paper of this kind and accepts them itself in payment of taxes, or adopts other measures tending to cause them to pass as money for certain purposes, it may suc-

ceed in maintaining the circulation of a certain limited amount of this sort of substitutes for money. So long as they did so they would constitute a virtual addition to the stock of coined gold.

Besides these tangible substitutes for gold, there is a great system of intangible substitutes—the vast credit system of modern times. Just in so far as business transactions are settled by the mere entering of certain figures on the debit or credit side of a banker's books; just in so far as, instead of handing over a bag of gold in payment of a purchase or a debt, A writes an order on his banker which B deposits with *his* banker, the result being the entering of a certain amount to the debit side of A's account at his bank and to the credit side of B's at his; just in so far as the banks themselves, instead of settling their accounts, each one directly with each other one by the transfer of cash, only settle their aggregate net balances through the clearing house, which requires incomparably less cash to be actually handled; just in so far as all this highly developed mechanism of credit and finance enables a small amount of gold to effect exchanges which would otherwise require a vast amount, the need of actual gold for the

transaction of a given volume of business upon a given scale of prices is enormously reduced. It is none the less true that, given the state of development of this mechanism, a country will require, upon a given scale of prices, a definite quantity of basic money with which to transact its business. The application of the quantity theory is not essentially altered; only, of course, the quantity of money corresponding to a given scale of prices is vastly less than it would be if this machinery of credit did not exist or were less highly developed.

When we say that the application of the quantity theory remains essentially unaltered by the fact that there exists this vast financial mechanism, by means of which far the largest part of all business transactions is effected without the direct use of tangible money, we mean that, so long as the nature and potency of this credit mechanism remain unchanged, an increase or diminution in the quantity of ordinary money (basic money and those substitutes which pass current alongside it) will involve a rise or fall of prices in the same proportion. If the quantity of money is increased or diminished by 20 per cent. the level of prices will rise or fall by 20 per cent. This proposition has been the

subject of a great deal of controversy, and it is quite impossible here to discuss it, except in the briefest way. But we must attempt to get some slight idea of the reason for asserting it and of the nature of some of the errors committed by those who dispute it.

The fundamental reason for asserting that prices will be proportional to the quantity of basic money, even though alongside that basic money there exists virtually a much larger volume of this other medium of exchange—that of the modern credit system—may perhaps be best apprehended by stating first the reason most commonly given for denying it. If, it is said, out of twenty billions of dollars of business transactions only one billion is settled by the use of gold, and the other nineteen billions by mere entries on bankers' books, the doubling of the stock of gold would have only so much effect upon prices as might be expected to result from the increase of the whole medium of exchange in the ratio of 21 to 20. That part of the medium, these objectors say, which consists in gold has, indeed, been doubled; but the whole has been affected very little. But the augmentation of the circulating medium through the mechanism of credit and banking is not a

matter, arithmetically speaking, of *addition*, but of *multiplication*. It is not as though nineteen billions in the shape of credit money were *added* to whatever sum of gold happened to be on hand; but it is that on top of every dollar of gold is built, some way or other, a credit or banking structure which plays the part of nineteen dollars of gold. If for every dollar of gold that there was before there are now two dollars, there is no reason in the world why the second dollar should not serve in exactly the same way as the basis of *its* nineteen dollars of virtual money in the credit and banking system. This being so, an increase of the basic money by any percentage would mean an increase of the credit medium by the same percentage; and accordingly a rise of prices by the same percentage, for the reason assigned in the simple case first considered: namely, that only through such increase of prices would use be found for the entire available supply of money—the tangible money that circulates from hand to hand and the banking-and-credit medium which serves as money in most business transactions.

Another class of objections comes under the head of "not seeing the woods for the trees." Of this many examples might be cited, but one

must suffice. In explaining how that adjustment of the credit medium takes place which the quantity theory requires, writers point out that an influx of gold has a tendency to cause bankers to increase their loans, the means adopted for this purpose being a lowering of the rate of discount. Now, then, say some of the objectors, we do not find, in the statistics of the discount rate during a period of increasing gold supply and rising prices, any lower average rate than usual. But, granting that this is so, it by no means disproves the assertion of the quantity-theory men. For, although a lowering of the discount rate may be a first step in the process—a step necessary to bring about an expansion of credits corresponding to the influx of gold—yet when this has had its effect in the raising of prices a new force is put in motion which tends to put the discount rate up again, and perhaps to a higher point than before. For rising prices mean exceptional profits for business enterprise; and exceptional profits mean an eager demand for money on the part of business men, which of course gives the banks the chance to lend their money—their credit money—at higher rates. This see-saw operation, with the downward turn serving to expand

the credit medium, while the upward turn does not contract it, is all that is necessary to satisfy the quantity-theory view; and there is no reason in the world to suppose that the net result of the see-saw would be a lowering, any more than a raising, of the average rate of discount for the period.

We cannot go further into the argument. But the opponents of the quantity theory, after they have done their best to show that it is false, have another string to their bow. They go on to say that when the theory is stated so carefully and accurately that it must be admitted to be true, it becomes a mere truism—a self-evident truth, having no practical significance or value. For, say they, even according to the theory itself, prices will rise or fall with the quantity of gold, only under the condition that "other things remain equal"; and other things never do remain equal. The volume of business transactions is constantly changing; the banking and credit system is constantly developing; and the habits of people in regard to the use of banking facilities do not remain the same from year to year. This kind of objection would reduce to a nullity not only the quantity theory of money, but almost every

fundamental principle of political economy. But the objection is thoroughly wrong-headed. The political economist is not a fortune-teller who prophesies what is going to happen at such a time in the future; his business is to endeavor to disentangle the various elements that enter into the economic situation and point out the influence which each of them is calculated to exercise upon it. It often happens that when he has done so, after having first had to overcome a vast amount of inertia to get his view accepted, he is met with the complacent declaration that any child could see that. And it almost seems as though any child could; only some way or other he doesn't.

In this particular instance it is easy to show that, truism or no truism, the quantity theory of money is not a mere empty formula devoid of practical importance. For we have before us the crude fact that those who accept it—and here it may be mentioned that these comprise substantially the whole body of scientific economists—declare that the enormous increase of the gold supply that has taken place in the last twenty years through the exploitation of the Klondike and South Africa, and the invention of new metallurgical processes, has exer-

cised a most powerful influence in the raising of prices; while those who reject the theory deny that this influence has been of any great consequence. A difference of opinion which results in assigning to one of the most striking economic developments of our time on the one hand a leading place, on the other hand almost no place at all, in accounting for the most perplexing social and industrial phenomenon of the day—the "high cost of living"—is surely a real and substantial difference, and not a mere quarrel about words.

Turning now from the theory itself, let us take a glance at the kind of thing that actually happens in the world; in other words, at what really takes place in consequence of the fact that "other things" do not "remain equal." In an age of economic progress and expansion there are three great factors that come into play. In the first place, the volume of business transactions is (speaking generally) continually on the increase, owing to the growth of production and of trade; and the greater the volume of business to be transacted with a given amount of money, under given conditions, the greater will be the value of money—in other words, the lower the price-level. But two other things

are going on all the time. There is an addition every year to the total supply of basic money—say gold—from the output of the mines. And there is a continual development of the scope and efficacy of the banking and credit system (and of other adjuncts to the efficiency of business methods) in consequence of which a smaller quantity of basic money is necessary for the transaction of a given volume of business at a given scale of prices. Thus, simultaneously with the increasing volume of business, which tends to lower prices, we have the annual additions to the quantity of basic money and the steady increase in the effectiveness of the mechanism of credit and exchange, both of which tend to raise prices. Which of these two opposing tendencies will prevail over the other can never be foretold for any length of time. But when, as a matter of fact, a great rise of general prices has taken place, covering a considerable period like that of the present era of high prices, it is quite certain that the growth in the volume of business, enormous though it has been, has been overmatched by the other two factors combined. There is room for dispute as to how much influence is to be ascribed to the stupendous increase of the world's stock

of gold in the last eighteen years, and how much to the development of the machinery of banking, credit, and exchange; but there is no room for doubt that the two together account for the phenomenon of the high prices, and that each has been a most powerful factor in its production.

Before leaving this subject it will be well to say a word about the relation of the price-level and the supply of gold in one country to the price-level and the supply of gold in the world at large.* All the commercial countries of the world are in touch with one another, and prices in one country are not independent of prices in others. Whether trade be free or not, and whether the expense of transportation be light or heavy, the level of prices of those commodities which enter into foreign trade has a fixed correspondence in all the great trading countries. In those cases in which trade is free, and as to those commodities for which, besides, transportation expenses are so slight as to be negligible, it may be said that the price is the

*We are still treating the matter as though all countries were upon the gold standard. This is done for the sake of simplicity; the modification that would be required if the existence of silver-standard countries, trading with gold-standard countries, were taken into account, would in no way affect the character of the results.

same in the various countries engaged in the trade; for any material difference of price would cause an increase of exportation to the country of higher price, which would soon reduce prices to an equality. But an exactly similar situation exists in those cases in which tariffs and transportation charges constitute a barrier, provided that barrier is not insuperable. Though prices will not be equal, there will be a fixed difference, corresponding to the amount of the tariff and transportation charges. Thus the level of prices in one country cannot be raised or lowered without necessitating a similar change in other countries. Let us see, then, what actually happens when an influx of gold occurs in a particular country, and raises prices in that country. So long as prices in other countries remain the same, gold can be used to better advantage in paying for imports from other countries than in making purchases at home. Some of the gold will go out of the country on this account. This will both tend to check the rise of prices at home and to produce a rise of prices abroad; and this process of diminishing the supply of gold at home and increasing the supply of gold abroad will continue until an equilibrium is reëstab-

lished, on the basis of the old relation between international prices. The final result will be that prices, instead of being considerably higher at home and remaining unchanged in the rest of the world, will be just a little higher the world over. The rise of price will correspond to the ratio which the increase of supply bears, not to the supply of gold in one country, but to the supply of gold existing in the entire commercial world.

CHAPTER VI

THE PANGS OF READJUSTMENT

A GENERAL condition of high prices is not in itself a hardship. If the prices of all commodities were the double of what they are now, and rents and taxes were twice as high (in dollars) as they are now, and railroad fares and theatre rates and all other expenditures that we make were likewise on double the present monetary scale, nobody would be the worse off or the better off, provided that, along with all the rest, a doubling of the price of all kinds of personal service had taken place—a doubling of wages, salaries, and all other forms of compensation for work of every kind. This is self-evident; but if any enforcement of the truth were needed it might be furnished by a glance at the broad facts of historical experience. A pound sterling, or a franc, or a dollar, went much further, as the saying is, in the seventeenth or eighteenth century than it does to-day; and before the discovery of America, with its gold

and silver mines, prices were far lower still. But people were not better off; on the contrary they were far worse off. For the gold or silver that went so far took a vastly greater amount of exertion to get in almost every department of human endeavor.

We have said that "nobody" would be worse or better off; but this is not quite accurate. There is one exception of great moment (as has been pointed out in a previous chapter) and another of far less, but still considerable, importance. This second exception affects people in so far as they own gold or other forms of actual money, or are interested in the ownership of gold mines or gold lands. Of course, anything that lowers the value of gold (i. e., raises prices) causes a dead loss so far as these interests are concerned. The other, and more important, exception relates to the holders of obligations (bonds, mortgages, annuities, etc.) calling for payment in fixed amounts of money, and of course likewise to those who owe the obligations. The holders of the obligations suffer a dead loss, those who owe the obligations make a clear gain, when the value of the dollar falls (i. e., when prices rise). Having once noted these reservations, let it be understood that we henceforth ignore

them, and refer to the situation as it affects people in general, apart from the actual ownership of money or gold or gold mines, and apart from the possession of claims or the owing of obligations expressly payable in stated amounts of money.

The adjustment that actually takes place is extremely irregular; we have seen in Chapter II how very different is the rate at which various kinds of personal income can be expected to rise with a rise of prices or fall with their fall. But even in the case of commodities differences of this kind exist; the price of some things can be promptly raised, of others not. No consumer pays a higher price because he is told that the volume of money has increased and that the price of everything ought to be adjusted to suit; he pays because he has to. Neither does any dealer accept a lower price out of regard for monetary statistics, but only because he can get no more. What brings prices up is a pressure which makes itself felt somehow, but about the source of which nobody troubles himself; and some things yield to the pressure sooner than others. There are some things, for instance, which people will not bring themselves to do without, even though the price seem to

them unreasonable; while there are others for which they are slow to make up their minds to pay an unaccustomed price. And of course, besides all this, there are infinite complexities in the matter of production and trade which affect very unequally different kinds of commodities, with the result that the prices of some respond much more readily than do those of others to the general pressure of circumstance.

All this being so, what reason, it might be asked, is there to think that the readjustment will ever cover the entire field? What reason is there to expect that ultimately, on the higher level, prices of commodities and services will all be raised in the same proportion? The reason is that it is essentially barter, not money, that controls. It is not an accident, neither is it due to any attribute of money, that a yard of silk costs as much as ten yards of cotton. The cause of this relation is to be found in the substantial facts relating to the production of silk and the effective desire of people for silk, on the one hand, and the production of cotton and the effective desire of people for cotton on the other. By "effective desire" we mean desire as measured and backed up by people's willingness and ability to give other things in exchange

for the thing in question. If the conditions of production—the amount of human effort necessary to it—remain the same after as before the rise of prices, and if the state of effective desire also remains the same, then there will be an irresistible tendency to make the ratio of the price of silk to that of cotton ten to one, even though that ratio may at first have been disturbed. If, for instance, cotton was at first too cheap, either the supply would fall off, or the demand would increase, or both; and this would continue until its relative price in comparison with silk conformed to the underlying facts of production on the one hand and of effective desire on the other. And the same kind of thing is true in regard to the price of personal services. If a skilled watchmaker commands three times the daily wages that a ditch-digger does, this is not because of any mysterious law connecting watchmaking with six dollars and ditch-digging with two dollars, but because of the actual supply of and demand for watchmakers on the one hand and ditch-diggers on the other; and these conditions of supply and demand being given, the wages of the former will be three times those of the latter, whatever may happen to be the value of the monetary

unit in terms of which their compensation is reckoned.

We have been speaking as though the question that concerned us had reference to two definite states of things—a lower and a higher level of prices. Even so, during the period required to complete the readjustment, those classes for whom the readjustment was slow would suffer hardship, sometimes serious hardship, as has already been indicated. And there would be little consolation in the fact that other classes were making exceptional gains, especially in view of the fact that it is the wage-earning and salaried classes, in general those least able to afford it, who would be the chief losers. This state of things—the passing from a fairly definite state of prices to another fairly definite state in which the level was higher—is presented when a sudden marked change, or one taking a comparatively short time to bring about, takes place in regard to money. This happened, for instance, after the discovery of gold in California; and it happened, too, when, during the Civil War, irredeemable Government paper became the ordinary currency of the United States. In like manner a comparatively sudden and definite change to a *lower*

level of prices was brought about by the demonetization of silver by a number of the leading countries of the world about forty years ago; for it need hardly be explained that, when silver and gold were both used as basic coinage metals, the combined volume of the two played the part which, in the discussion of the last chapter, was supposed to be played by gold alone.

But when prices do not rise suddenly, or in a short time, to a high level and stay there, but keep on rising, more or less continuously, through a long series of years, the process of readjustment does not come to a definite end, but is constantly being renewed. Those hardships to which we have been referring, and which might be dismissed as comparatively unimportant if their duration was brief, are a far more serious matter when they seem to become a regular part of life and no one can set a limit to the time during which they will continue to be felt. This present period of rise in prices has been of extraordinarily long duration, and many good judges are of the opinion that, unless something not yet in prospect should intervene, prices will continue to rise for a considerable period in the future.

This opinion, although many considerations are adduced to back it, I do not believe that there is convincing reason to accept. It is quite within the possibilities, in my judgment, that the rise of prices will come to an end before very long. However, this question of the future is involved in the utmost doubt and uncertainty; and if it should turn out that, as a matter of fact, the upward trend of prices will continue for a long stretch of time, the grievances of those classes that are in an unfavorable position for securing the necessary readjustment will keep recurring. Such a condition of things has the effect of not only inflicting hardships on individuals, but naturally also —as has been abundantly seen in recent years —that of arousing grave discontent and giving rise to much disturbing agitation.

But, as has been intimated in a previous chapter, there are one or two features of a long period of rising prices which tend to mitigate its evil effects upon the classes that suffer by it. There is no great consolation to the unprosperous in the excessive prosperity of the prosperous, taken in itself; but actual benefit comes to the working classes during such a time through the greater continuity of employ-

ment, and also in another way. As has been explained in another connection, the prevailing rate of interest in a time of rising prices tends to be higher than at other times; and this gives to all persons of modest income who are above the stage of actual poverty the opportunity for investing their savings to better advantage. And, of course, in like manner a time of falling prices, while primarily benefiting the wage-earning and salaried classes, presents the corresponding drawback in the shape of less continuous employment and of lower rates of interest.

CHAPTER VII

FOOD PRICES AND OTHER PRICES

In Chapter V it was pointed out that when a rise of prices takes place only in certain particular commodities or classes of commodities, while the general level of prices is undisturbed, the cause is to be sought in something affecting those commodities; but that the cause of a general rise of prices must lie in something affecting money, and not commodities. And the discussions contained in that chapter and the following one have related to the phenomenon of a general rise (or a general fall) of prices.

But of course, simultaneously with a general rise (or a general fall) brought about by causes affecting money there are going on all the time the myriad influences which affect specific commodities or classes of commodities. Changes in methods of production, the discovery of new sources of supply or the exhaustion of old ones, the increase of demand due to the growth of pop-

ulation or to the new needs constantly being created by the progress of invention and otherwise, or, on the other hand, the decline of demand brought about by changes of fashion or other causes—all these things, and many others, act to raise or depress (as the case may be) the prices of all sorts of things during a period of rising or falling price-level, just as they would if the general level of prices were not being subjected to any alteration. Accordingly, what happens to the priceof any particular thing isthe combined effect of what would have happened owing to causes relating to the supply and demand of that thing if the value of money had remained unaltered, and what would have happened if the value of money alone had changed while the circumstances of supply and demand relating to the particular thing had remained unaltered.

So obvious and elementary is this consideration that one would hardly feel it necessary to mention it in more than a passing word, were it not for the almost incredible fact that one frequently encounters, in writers of respectable standing, the assertion that the quantity theory of money is shown to be false by the consideration that there is no such thing as a general rise of prices, since some prices rise a great deal

at the same time that others rise very little and still others actually fall. This is very much as though one should say that the immigration of the last decade has not increased the population of the United States because, while the urban population has greatly increased, there are many rural districts in which the population has actually diminished. The truth, of course, is that the influx of immigrants has been a cause acting to increase the population of the country as a whole, but that at the same time causes have been at work which tend to diminish the rural and increase the urban population.

But, apart from the clearing up of this childish error, there is a reason for dwelling a little further upon the point. Let us look, for a moment, upon the arithmetic of it. If the general level of prices has risen 30 per cent., say, and at the same time causes have been at work affecting the commodity A in such a way that, taken in themselves they would have raised its price 30 per cent., what will actually have happened is a rise of the price of A by 69 per cent.; since 130 per cent. of 130 per cent. is 169 per cent. On the other hand, if the general level had risen 30 per cent., and causes affecting the commodity B would in themselves

have *lowered* its price by 30 per cent., what will actually have happened is a fall of the price of B by 9 per cent.; since 130 per cent. of 70 per cent. is 91 per cent.

Not only, therefore, will there be a very serious difference between the way in which the prices of different things are affected during a period of general rise, but that difference, in the case of two commodities affected in opposite ways by the special causes affecting them respectively, is far greater than most persons would imagine without stopping to think. Thus, take the case just supposed. A rise of 30 per cent. in the general level of prices is a matter of very high importance, but it cannot be called startling or extraordinary; and a rise or fall of 30 per cent. in the price of any particular commodity is not so unusual as to excite wonder or to attract peculiar attention. Yet this rise in the case of A, and this fall in the case of B, when combined with the common rise in both, due to the rise of the general level, results in an extreme contrast in the story of the two. What was a dollar's worth of each becomes a dollar and sixty-nine cents' worth of the one and ninety-one cents' worth of the other —a discrepancy of almost two to one; or, to be

exact, it will take 186 units of B to buy as much of A as 100 units of B bought before.

Now, in point of fact, something like this has actually taken place, upon a scale sufficient to make a profound impression on human conditions the world over. Along with the general rise of the price-level, food prices, and especially the prices of some of the most important food products, have been rising on their own account, owing to a multitude of specific causes. Indeed, the illustration of the commodity A which was made use of above, almost at random, fits with a fair degree of approximation the actual facts of the past ten or a dozen years in the case of beef, eggs, and some other important products. A 30 per cent. rise in the general price-level, combined with a 30 per cent. rise affecting the particular prices (which would make an actual rise of 69 per cent.), is not far from what has taken place. At the same time, many other things have simply risen by just about the amount that the general price-level has risen; while still others have not risen at all, and some have even fallen. Accordingly, food prices stand out with great conspicuousness; and one is sometimes almost tempted to think that the change that has taken place in

the price of food is almost the only important advance in prices that has occurred.

While, of course, such an impression is entirely unjustified, and cannot be entertained by any one familiar with the statistics, there is a reason for the impression quite apart from the arithmetical facts just mentioned. It is not only because a number of food products have risen in price far more than the general run of commodities, but also because of the extreme importance of certain of these products in the domestic economy of a majority of the people, and especially of the urban working classes, that the rise in the price of food has dwarfed all other aspects of the high-price question in general discussion. There is no change that people in general are more reluctant to make in their ways of living than that of a lowering of the quality or a lessening of the quantity of their habitual fare. In the case of the poor, and even of families that are not to be called poor, but who have to live frugally, a rise of food prices presents a dilemma either horn of which it is very unpleasant to choose. They dislike to stint their accustomed fare—not to speak of any physical ill effects of such a proceeding; and, on the other hand, if they in-

crease their expenditure on food they must cut into their little store of comforts and their very narrow margin of luxuries, which may easily have the effect of still more seriously impairing their happiness and possibly also their health. Discontent over the rising prices of food has, accordingly, for a number of years past been manifested in this country, and still more in nearly all the leading European countries, in ways extremely serious from a political as well as a social standpoint.

Some of the causes which tend to produce the increase of food prices in our time are obvious enough. Most conspicuous among them, perhaps, is the constantly increasing tendency of the urban population to gain in numbers at the expense of the rural; this, of course, tending constantly to make the supply of agricultural products smaller in comparison with the demand year after year. It is true, indeed, that improvements in agricultural methods exercise an important influence in the opposite direction, since they enlarge the supply obtainable by a given amount of labor, or upon a given piece of land; but, on the other hand, we have to take into account the cessation of that rapid process of opening up of new lands (especially

in this country and South America) which, up to a score of years ago or thereabouts, exercised so dominating an influence in the increasing of the world's supply of meats and grain. Exhaustion of soils and of fisheries, too, must be taken into account for what it may be worth. Finally, it should be noted that, even in the case of food products not immediately affected by such causes as we have mentioned or by others that might be named, prices will naturally rise in sympathy with these others. No sentimental sympathy, to be sure; but if the price of meat becomes excessive, and people resort to a greater use of eggs as a substitute, this increased demand for eggs, unless matched by a corresponding enlargement of supply, will raise the price of eggs in a somewhat corresponding degree.

It is not improbable, however, in my judgment, that the marked excess in the rate at which the prices of leading food products have risen, as compared with those of the general run of commodities, is to be explained in large measure by considerations relating not to supply but to demand. When prices rise, those persons whose income does not rise, or does not rise in a corresponding measure, have to econo-

mize somewhere; and the last thing in which most people are willing to economize is food. The amount of money that people expend upon food would in any case much more promptly rise to the point called for by the general advance than would the amount devoted to other things; but when to this consideration is joined the additional one that a large, indeed a preponderating, part of the population have incomes which lag behind the advancing price-level, it is plain that this difference between the behavior of food prices and other prices must be greatly intensified. For these great multitudes, with their money incomes inadequately increased, will, so far as possible, raise their expenditures for food to the full amount demanded, and for that very reason will be unable to do the like in regard to other things. If that process of readjustment which formed the subject of the preceding chapter were completed in a short time, it might be expected that the same thing would happen as to the readjustment of the relation of food prices to other prices; but when, as in the present era of rising prices, the advance of the price-level continues through a series of years, and the "pangs of readjustment" suffered by wage-earners and

salaried people are likewise prolonged, we have a situation strongly tending to bring about a continuous excess in the rise of food prices as compared with the prices of the general run of things.

CHAPTER VIII

TARIFF, TRUSTS, COLD STORAGE

IN POPULAR discussions of the high cost of living in this country a great deal of attention has been bestowed on the tariff and the trusts. Sometimes in all sincerity, and sometimes as a mere part of the familiar stage-play of party politics, these have been pointed to as leading influences in bringing about that great rise of prices which has been the occasion of so much concern in the past ten or a dozen years. It will be desirable, therefore, to examine briefly the question of the relation of these two agencies to the phenomenon we are considering.

As regards the tariff, the first point that should suggest itself to the mind is that there was no increase in tariff rates, or none worth serious consideration, in the period in question. On the face of it, therefore, to name the tariff as a cause of the rise of prices is to commit the fallacy (one that we have heretofore had occa-

sion to refer to) of assigning as the cause of a new condition a thing which is not new but which has been operative all along. The tariff in 1910 made certain American prices higher than they would have been without them; but it did the same in 1900, and accordingly cannot account for the rise that took place in the interval.

But, although logically inadmissible as an explanation of the rise of prices, it was practically right enough to fix attention upon the tariff at the time when people were particularly feeling the pinch of high prices. For, though it may have had nothing to do with the level of prices being higher than it had been before, it had much to do with the prices of certain things being as high as they were. You can't get people to think very seriously about a thing at a time when it gives them no discomfort, or only such discomfort as they have become thoroughly accustomed to; and while the argument connecting the tariff with the change in prices was unsound, it served as a means of getting a hearing for other arguments which were quite sound, and which, though they applied equally in low-price days, were in those days received with comparative indifference.

It is claimed, indeed, by the Republicans, and by the opponents of tariff reduction generally, that the experience of the past two years shows that not only the assertion that the tariff was a cause of the rise of prices was without justification—which, as we have seen, is correct, since the tariff was not raised—but also that even a lowering of the tariff does nothing to help matters, since it has not (they say) lowered prices. The prospect is that in the presidential campaign of 1916 Republican spellbinders will find a large part of their stock-in-trade in the disappointment of the hopes of a lowered cost of living raised by Democratic spellbinders in 1912. Everybody good-naturedly allows for campaign exaggeration; but a complete, or almost complete, failure of expectations is another matter. Nevertheless, if there has actually been no reduction in the cost of living, no lowering of the level of American prices, since the enactment of the Underwood tariff, this does not by any means show that the lowering of the tariff rates was of no effect. In order to prove that, it would have to be shown that prices would not have been still higher if the tariff had not been reduced; and it is a safe prediction that none of the campaign

speeches or campaign articles will attempt to show anything of the kind.

In this connection it will be well to point out a distinction between explanations of a rise in a special set of prices and explanations of a rise in the general price-level. When, for instance, we were considering the rise in the price of beef, it might appear as though, in regard to some of the causes assigned for it, we had been guilty of the fallacy above referred to; since these causes were at work (and some of them, perhaps, in no less intensity) for many years before the beginning of the era of rising prices. But in point of fact there was nothing wrong about the argument. Exhaustion of soil, increase of population, etc., *were*, in point of fact, tending to raise prices of the products affected by them before 1897 as well as after; and it was legitimate to take account of their effect in this direction in both periods. Only, in the earlier period the upward tendency of these factors was *masked* by the downward tendency of the general price-level; while in the later period the upward effect of the special factors was *reinforced* by that of the general one. Neither at the one time nor at the other did the special factors tend to affect the general price-level;

when the price of one thing rises through causes affecting it specifically, while the general conditions which determine the price-level remain unaltered, a compensating depression tends to be produced in other prices—though, of course, unless the thing in question plays an enormous part in the general system, this compensation, spread out over things in general, is too minute to be appreciable.

For the sake of simplicity one point has been ignored which, when taken into account, does justify to some extent the view that the tariff, although not itself raised, has been a cause of the rise of prices of certain important commodities. Although there was nothing new in the tariff itself, there was, during the period under consideration, a great new development upon which the existence of the tariff had a very considerable influence. Most of the great consolidations and combinations generally known as Trusts were either created or greatly strengthened and enlarged in the ten or twelve years following 1897. In so far as the existence of Trusts may have been the cause of a rise of price in the products produced or controlled by them, this has been made possible by their possession of something like a monopoly in the

field in which they have operated. And where the products in question have been such as, under free trade, would have been the subject of effective competition from abroad, the tariff barrier has acted as a buttress to that monopoly. So that it may be reasonably charged that, while the tariff was not in itself anything new, there *was* something new in its operation as a promoter of monopoly.

Concerning the degree in which, as a matter of fact, the prices of Trust-made or Trust-controlled articles have been raised above what they would have been under freer competition, we cannot go into detail. If, however, we were to attempt it, much more would be necessary than a mere citation of price statistics. To get at the real truth of such a matter is an extremely difficult task. A number of important Trust products have actually declined in price at the very time when the prices of most things were rising; but this does not show that the existence of the Trusts has had the effect of reducing those prices. A very striking case is that of petroleum. Its price has gone down a great deal since the Standard Oil Company became the colossal power that it has long been in this field; and that fact is often

pointed to as proof that the formation of the Trust had the effect of reducing the price of oil. But this assertion is not only subject to the theoretical objection applying to this kind of reasoning in general, but may be met in a much more homely way. For the fact is that the price of oil had been declining for many years before the Trust got its grip on the business, and at a rate much more rapid than that which obtained afterward.

There can be no doubt that the economies made possible by the large-scale production, the high organization, the avoidance of duplication, and the employment of great and expensive adjuncts to production and distribution, which are characteristic of the Trusts, have enabled them, in many instances, to effect great economies; and it has accordingly been possible for them to make enormous profits even without raising prices. The Standard Oil, with its pipe lines and its wonderful organization, is a most striking example of all this. And it must be remembered, too, that, speaking generally, no Trust is in anything like the position of an absolute monopoly. Even when it completely, or almost completely, controls the whole field, it is debarred from put-

ting its prices much above the point at which they would naturally be by the consideration of potential competition. There is nearly always enough possibility of its business being cut into by newcomers to impose upon it the necessity of a reasonable amount of moderation. And in nearly all cases there are not only potential, but actual, competitors ready to seize such an opportunity as would be opened to them if the Trust attempted to work its advantages for more than they are worth. Finally, I do not think there can be any doubt that the anti-Trust legislation, in spite of the slowness with which its efficient operation has been developed, has been exercising a very potent restraining influence on the conduct of the Trusts.

In sum, it may be said, as regards the tariff and Trusts, first, that neither can be regarded as a cause of the rise in the general price-level; secondly, that while the tariff has undoubtedly made the prices of many things higher than they otherwise would have been, it cannot be assigned as a reason for the rise of those prices in the present high-price period (except in so far as it has been a buttress to the Trusts in their monopolistic tendencies); and finally,

that it is highly probable that the prices of many Trust-controlled products have risen (or failed to fall) in consequence of the building up of the Trusts. Upon this last point it is proper to note, however, that most of the more striking instances of great advance in prices are to be found in things whose price has not been, or has not been chiefly, affected by Trust operations. And, lest a false impression be produced by what has been said about the general price-level on the one hand and particular prices on the other, it is well to add one further remark. Even though the raising of particular prices by monopoly methods may not affect the general price-level, this is by no means to say that it is not a general hardship. A monopoly price exacted by particular interests is obtained at the expense of the rest of the community, even though the means by which it is paid may be a lowering of the prices that the rest of the community get for their commodities and services.

"Cold Storage" was included along with the tariff and the Trusts in the heading of this chapter; but this was not because the subject is in any way of an importance coördinate with that of the other two. It was brought in

simply because it offers a convenient illustration of a class of absurdities which abound in everyday discussions of the high cost of living. When the price of eggs reached the extraordinary height that has now become familiar probably nothing was more frequent, among people not in the habit of careful thinking, than to say that it was cold storage that had brought it about. In more than one State bills were introduced to prohibit by law the cold storage of eggs for more than a limited number of months. It was not uncommon to hear people say that the wicked egg dealers actually stored eggs for a year, or several years, and that was the way they got those tremendous winter prices which it was so irritating to pay. Now whether cold storage of eggs be desirable or not, it is quite certain that it is the last thing in the world that could be resorted to for the purpose of raising the price of eggs in the season of scarcity. It is possible to believe that somebody has got such control of the egg market that he can ask whatever price he pleases; but it is quite impossible to believe that because there are more of them he can get a higher price than he could if there were fewer. Cold storage of eggs may raise their price in the sea-

son of abundance by keeping them out of the market; but in the season of scarcity, if it has any effect it must have the effect of reducing the price. As for holding them year after year, of course nobody would do that unless he took a special pleasure in the contemplation of his ownership of so precious a commodity, which would compensate for the loss of interest on his money. Cold storage of meats is, of course, a far more important matter, and a more complicated one. This, too, ought to have the effect of equalizing prices at different times, not that of raising them at all times;* a thing which is obviously desirable in the general interest, since it tends to prevent waste in time of abundance and deprivation in time of scarcity. In point of fact, this is probably, in the main, the way it does operate; but there is another factor connected with it which tends to counteract this benefit to the public. The concentration of the meat-packing interests, with whatever

*Besides equalizing (or nearly equalizing) them at different places. Thus cold storage puts our Atlantic seaboard practically on a level with the Middle West. But it also puts Europe (in so far as imports are free from tariff burdens) practically on a level with America; and this levelling all round means that meat prices in the Western States are much higher, and in England (with its free-trade system) much lower, than they would be without cold storage; while in our Eastern States an intermediate effect is produced.

of monopoly evils may have resulted from it, is closely bound up with the cold-storage system. What has been the net outcome of these two opposing influences is a question too complex for us to consider.

CHAPTER IX

MIDDLEMEN, MARKETS, COÖPERATION

A LARGE part of the cost of most things to the consumer is due to payments that have to be made to persons not engaged in its "production," but in activities intervening between that and the arrival of the things in the hands of the consumer. This is most emphatically true of food products, for a number of reasons: such as the large bulk corresponding to a given value, the smallness of the individual daily transactions which take up so much of the retailer's time, the demand for the conveniences of neighborhood buying and of daily delivery, the perishableness of many of the articles, etc. Accordingly, a great deal of attention has been directed to the question of what it may be possible to do to diminish the difference between what the "producer" gets and what the consumer pays, particularly in the case of the foods. To this subject, which cannot be treated to

much advantage without going into special practical details, we cannot give more than a mere glance; but before doing so it seems desirable to draw attention to an elementary point that is often overlooked, but which is essential to a proper mental attitude toward the facts of our economic life.

It was for the purpose of directing attention to this point that the words "production" and "producer" in the foregoing paragraph were put in quotation marks. The common notion that the "producer" performs a service of an essentially different kind from that performed by persons engaged in the processes that intervene between the "production" of an article and its arrival in the hands of the consumer is fundamentally erroneous. The farmer, in point of fact, does not produce (that is, he does not create) a grain of wheat; he only moves certain grains of wheat and certain other particles of matter from one place to another in such a way as to enable the forces of nature to put a hundred grains where one was before. Still more plainly does the miner not really produce the coal that he dislodges from the bowels of the earth and brings to the surface. And to make either the wheat or the coal of

use, it is just as necessary for somebody to perform, in some way or other, the successive steps required for its transportation and distribution—including the various processes of sale which have to be gone through, so long as no better method of distribution is devised—as it is for the farmer or the miner to "produce" it. Accordingly, some economists insist—and with no little reason—that the word "production" ought to be understood as covering all these activities, as well as those usually denoted by the term. But this would inevitably lead to confusion in any ordinary discussion. The point itself, however, is of great importance even in so elementary a discussion as that of this little book; for it should serve to bring into sharp relief the fact that the "middleman" is not to be regarded as a parasite, but as a substantial part of the economic organization by which the needs of mankind are served.

While, however, the middleman is not to be regarded as a parasite or supernumerary, the question always remains whether his services are not obtained at an exorbitant cost to the public. And this question divides itself into two. It may be asked whether he extorts an excessive profit from the people; or it may be

asked whether, regardless of that question, a method might not be found by which the people could get the same service at less cost to themselves. The most conspicuous instance, perhaps, of this latter question, relates to the organization of the retail trade in provisions—including meat, milk, vegetables, etc. The housekeeper who sees it stated by a trustworthy authority that "for handling the goods and selling them to the consumer the retailer charges from 30 to 100 per cent. increase over the wholesaler's price, with an average of 45 per cent.," can hardly help feeling that there is something wrong about this; but if she is sensible, she will not rush to the conclusion that the man who keeps the little store around the corner is a conscienceless extortioner. On the contrary, she knows, in all probability, that he is an honest and hard-working man who, by close attention to his business, manages to make a decent living for his family and perhaps to put by a little money for the future. Moreover, she knows absolutely that he is in the enjoyment of no privilege that is not open to everybody, and that therefore if he made excessive profits they would soon be cut down by competition.

But, having noted all this, she might natu-

rally be led to think of the other branch of the question. Is it necessary, she might ask, that there should be this enormous number of little grocery and provision and delicatessen stores? Would there not be a great economy in concentrating the business into few hands? A considerable reduction in the actual number of stores might be made without serious inconvenience to housekeepers; and besides reduction in number, the mere fact of common ownership would give opportunities for economy. As a matter of fact, there has developed a strong tendency in both these directions, and it is not impossible that ultimately the margin between the wholesale and the retail price of provisions will be cut down in a considerable measure through the substitution of large-scale for small-scale retailing. A large store can, speaking generally, conduct its business at a lower cost per dollar of sales than a small one; and either a large store, or a chain of many stores under one ownership, can do its buying to better advantage, not only because of getting better terms in its purchases, but also because of being able to shift its supply from store to store as it may happen to be needed, thus avoiding waste and economizing stock.

Just how much can be accomplished in this way it is difficult to say. Some advantages the little store has, especially in the poorer sections. The owner, with incidental assistance in many odds and ends of ways from his family, can make it pay to serve petty needs of his customers which the large-scale business concern, with every service systematized and salaried, would find it unprofitable to fill. One point that is perhaps seldom noticed is that the little retailer of goods, especially of meats and what are generally called "provisions," is kept busy enough. Neither owner nor employees (if there are any) is often seen idle. In other words, there is little actual waste of labor; nor is there any reason to believe that this labor (of owner and employee together) gets much more compensation than it would in the large-scale business.

Besides improvements in the organization of retailing, important economies might be effected in the wholesale business intervening between the producer and the retailer. As regards both the one and the other, the establishment of public markets, owned and controlled by the municipality, is one of the methods most strongly urged by persons who have

studied the subject. In both cases the effect would be to give the buyer—the retailer in the one case and the consumer in the other—a better chance to know actual conditions, and to deal directly with the person who can supply him upon the best terms. In the case of the retail markets there is, of course, the additional advantage of enabling the producer, in many cases, to come into direct contact with the consumer, thus eliminating the middleman altogether; but it must be remembered that this advantage is not so absolute as might at first sight appear. In order to effect this elimination it is necessary for the producer in all cases, and for the consumer in most, to do middleman's work, which always costs time and often money. It may be more profitable to the farmer to sell his potatoes to the commission merchant at $1 a barrel than to haul them into town and get $2 a barrel by selling them in pecks and quarter-pecks in the open market; and it may be more profitable to the housekeeper to pay 10 cents a quarter-peck for her potatoes, ordered of the retailer's clerk at her door and delivered in her kitchen, than to get them at 8 cents by going to the market for them. All these things vary enormously with

circumstances; were the case so simple as some people imagine, reforms or improvements of this nature, instead of moving at a snail's pace, would carry everything before them in a very short time.

We cannot go further into this class of questions; what has been said is merely in the nature of an indication of the elements that enter into them. But in conclusion it should be stated that, after all allowance is made for difficulties and limitations, there can be no doubt that the economies that are offered by the various possible improvements in business organization and methods, taken conjointly, form a great aggregate. The strides that are being made in many directions, and the practical endeavors that are being put forth, are amply justified by the possibilities of general benefit.

One means of cutting down that part of the cost of living which consists in payments to middlemen, namely the coöperative store, has attracted extraordinarily little interest in this country. It has attained very large dimensions in Great Britain, where it is estimated that something like one seventh of the needs of the people is supplied through these establishments. The principle upon which the most

important of these, so far as the working classes are concerned—the Rochdale stores—are conducted is excellent, not only as a means of saving in purchase-price, but also as an encouragement to thrift. The price charged the members for the goods they buy is the standard retail price, and the saving comes in only at the end of the quarter. This takes the shape of a division of the profits accruing during the quarter, among all the members, in proportion to the amount they have purchased; that is, they get back a certain percentage of the price originally paid. As a rule, this is about 10 per cent. In reckoning the profit, a return of 5 per cent. per annum is first allowed for the capital invested; this capital being supplied by the coöperators themselves in shares of small denominations. Whoever desires to invest the quarterly dividend on his purchases in such shares instead of taking it out in cash may do so; and in point of fact it has been through the general prevalence of this practice that the capital of the stores has grown from small beginnings to the large volume which has made possible the great development of the Rochdale plan. It is plain that several elements must conspire to bring about the suc-

cess and growth of such a scheme. It requires able, economical, and honest management; it requires a strong desire, on the part of many persons, to effect what is, after all, though a substantial, yet a modest, saving; and it involves a certain continuity of personal relations which in a rapidly shifting population is more or less difficult to obtain. The slowness of the growth of the coöperative plan in our country may largely be ascribed to the high pay which is required to obtain the services of men of ability and energy, the comparative disregard among us of moderate savings that have to be carefully planned for, and the rapidity with which changes take place both in population and in business conditions.

CHAPTER X

LOW PRICES AND DISCONTENT

It is with high prices and rising prices that we have been chiefly occupied throughout this little book; but it was pointed out in the first chapter that the present era of high prices was preceded by a long period during which it was low prices and falling prices that constantly gave the world matter for serious concern. It will be well to devote a little attention to some of the leading features of that low-price period, which began approximately with the demonetization of silver by Germany and the United States in the early seventies, and ended approximately with the opening up of great new supplies of gold in the late nineties of the last century.

It is somewhat remarkable that in the low-price period, as well as in the high-price period, the prices of agricultural products—at least in our own country—played the leading part. The reason, however, was largely different in

the two cases. The low price of grain, especially wheat, did, indeed, bear hard upon the farmer, partly because he, like the wage-earner, is a man who can little afford any loss; but there were two other reasons which played an even more crucial part in the matter. In the first place, the farmer, being an employer of day laborers, whose wages (as we have seen in Chapter II) are slow to fall, as well as slow to rise, had to pay an almost undiminished amount for his help while receiving a greatly reduced price for his crop; his margin of profit being thus often reduced to little or nothing. And, secondly, in this country a large proportion of all the farmers, especially in the West, had borrowed money on mortgage, and these mortgages had to be repaid in the full number of dollars they called for, without any account being taken of the increased value of the dollar as measured in the farmer's products. It was, therefore, in the triple capacity of poor man (i. e., more or less poor man), employer of labor, and debtor that the farmer suffered in the low-price period.

In the political agitation over the silver question it was as debtor that the farmer chiefly figured; and indeed the "debtor class" held

the centre of the stage throughout that agitation. The restoration of silver to its old place in our monetary system, by the reëstablishment of free coinage at the ratio of sixteen to one, would have lowered the value of the dollar and thus have made it easier for debtors in general to pay their obligations, and in particular for farmers to get rid of the burden of their mortgages. It is not fair to condemn this proposal out of hand as pure and unalloyed dishonesty; seeing that, as a matter of fact, debts were being repaid in dollars worth substantially more than the dollars that were borrowed. And this is not the place to set forth the reasons why, in spite of a certain plausibility in the free-silver scheme, a certain degree of *prima facie* equity in it, the proposal was one to be emphatically condemned from the standpoint of sound ethics. It must suffice to say that these ups and downs in the value of money are part of the risk that borrowers and lenders take all the time; and that for the Government occasionally to interfere to protect the losing side by an act of legislation, subject to all the chances and changes of politics, would lead to all kinds of uncertainty and demoralization. And it is most interesting to note that this

argument, which was insisted upon by the upholders of sound money throughout the silver agitation, and especially during the great campaign of 1896, has in these latter years received an impressive reinforcement. For who has heard of any political agitation for the protection of the *creditor* class, now that the value of the dollar has been rising as rapidly as in those other days it was falling? Yet that is what might naturally have been expected to happen if the clamor of the "debtor class" had resulted in the debasement of the currency twenty years ago.

One word about the nature of the "debtor class" itself. The phrase is suggestive of poverty; and so far as the small farmers are concerned, the suggestion is appropriate enough. But outside of mortgage-burdened farmers, the actual debtor class consisted, in the main, not of poor men, but of rich men. In the modern industrial and commercial system it is those who undertake great enterprises, who carry on the manufacturing, transportation, and business activities of the country, that are the big debtors. These people were all strongly opposed to free silver, in spite of their owing enormous sums that had been borrowed

for the launching or conducting of their various enterprises. It is not necessary, on this account, to give them credit for phenomenal honesty or scrupulousness; for they well knew that any gain that might accrue to them from a scaling of their debts would be far more than balanced by the universal injury done to business through the shattering of confidence in the soundness of the nation's currency and the integrity of its financial policy.

Turning now from these questions of ethics and politics, let us look for a moment at another cause of widespread discontent and distress in the period of falling prices. As has been pointed out in a previous chapter, the immediate effect of falling prices upon business men—manufacturers and merchants—is unfavorable and depressing; the proceeds that they derive from the working up of raw material or the sale of finished goods, which they have bought at certain prices, are less than they had calculated upon getting on the basis of those prices. In addition to this, as has just been mentioned, business is largely carried on upon borrowed money, and the burden of repaying this becomes heavier in consequence of the lowered prices of the goods dealt in or produced. There

are, to be sure, as we have seen in Chapter II, compensating tendencies; but these do not make themselves felt at once. And the worst of it is that anything that affects unfavorably those who conduct the business enterprises of a country is calculated to have consequences far more serious than the mere hardship suffered by those individuals themselves. Whenever profits are (or even seem) unusually small, enterprise is discouraged; and this slackening of enterprise rapidly spreads its depressing consequences throughout the whole community in the shape of the most substantial of all economic evils, unemployment and the diminution of production. Thus, over and above complaints like those of our farmers and our "debtor class," there was, in Europe as well as in this country, during the low-price era which ended about eighteen years ago, a constantly recurring wail of "hard times" arising from frequent depressions in industry and trade.

Serious as were the evils connected with the prevalence of low and fallen prices, they were undoubtedly exaggerated in the current talk and discussion of those days; and the cry of hard times, in particular, was raised more frequently and more loudly than the facts justified.

This, unfortunately, is natural enough; complaining is very apt to be vocal, while contentment is usually silent. What is more peculiar, and quite deserving of special notice, is the fact that the classes that are not only not hurt by low prices, but actually benefited by them, caught the contagion of complaining, and often wore as long faces as anybody. One heard so much about distress and hard times that one almost forgot to ask whether he himself was affected in the same way as, from the tone of nearly everything that was being said and written, it appeared that all the world was. In so far as this meant sympathy for others and forgetfulness of self, it was all very well. But the fact is that these people who were well off in the low-price period were not a few solitary exceptions, but great multitudes; and not to take account of this was to get a false and exaggerated impression of general calamity. The present writer well remembers the acute way in which, in a chance conversation on the hard times, some twenty years ago, a distinguished university professor (a philologist, not an economist) touched off the situation: "Wait," said he, "till we feel the pinch of prosperity." The thing is worth remembering: for there is

no doubt that now, as then, we are in constant danger of dwelling exclusively on the bad side of the situation, and not only exaggerating it, but forgetting that it has any good consequences for anybody.

CHAPTER XI

HIGH PRICES AND DISCONTENT

To THE grievances that go with high prices, and the discontent which they arouse, it is needless to devote much space, since these have been more or less the subject of our attention all the way through. What is most worth noting is the difference in psychological tone, and in political and social effect, between the discontent aroused by the high prices and that which was excited by the low. Perhaps the most important point of difference is that whereas the low prices were thought of, even by those who suffered most severely from them, as due merely to some peculiar failure in the working of the money mechanism or some other special part of the economic order, high prices are instinctively thought of by most people as meaning an essential change for the worse in the conditions of existence. It is for this reason that the phrase "high cost of living" is almost universally used instead of high prices. And

the consequences of this confusion of thought have been extremely serious. If people habitually spoke of high prices instead of "high cost of living," they would still, indeed, complain, and justly complain, of the burdens under which they labored in consequence of them; but there would be a better chance of their seeing the matter in the light of an ordinary economic hardship, due to circumstances of a special nature and quite possibly destined to give place in a not distant future to a wholly different condition of things.

Distress, whether temporary or otherwise, is, of course, always a feeder to socialistic and semi-socialistic agitation; but its efficacy for this purpose is vastly increased when the distress comes to be looked upon as part of the permanent order of things. It will be remembered that the most powerful weapon in the arsenal of Karl Marx and other socialists of half a century ago was to be found in their theory that devastating panics were not merely an occasional phenomenon of the modern industrial order, but so inherent a part of it that they were bound to grow both in intensity and in frequency so long as that order continued to exist. It was not by pointing to them as

occasional temporary disturbances, but by insisting on their permanent and dominating place in the existing order, that they made the fact of panics so essential a part of their propaganda. And in like manner, though of course not in so definite a way, the notion that the high prices of the past decade or more mean an increase in the difficulty of maintaining life —an increase bound up with the fundamental facts of modern life and not merely caused by a temporary maladjustment—has had a great deal to do with the spread of socialistic notions under the influence of economic discontent.

Another difference regarding the discontent created in the two periods turns on the nature of the classes affected, and on the way in which they are affected. The farmers and planters who were getting low prices for their crops, while their expenses were comparatively little diminished and their mortgage debts had to be paid in full-value money, faced a situation which looked like ruin to very many of them, and really meant ruin to a considerable number. The various privations to which people of the wage-earning and salaried classes have been, in a greater or less degree, subjected as a consequence of the high prices, are hard to bear, and

sometimes mean serious injury; but these things do not bear down upon people in such desperate fashion as does the ruin of one's business or the reduction of a prosperous yeoman to the condition of a hopeless debtor. More people are adversely affected, but there is no class that feels as if it were being absolutely crushed. Furthermore, the great class most seriously affected by high prices, namely the wage-earners, are in possession, through the machinery of their organizations, of the means of bringing pressure to bear to hasten the process of readjustment. By means of strikes, or threats of strikes, they can secure, in a fairly reasonable time, such changes in their rates of pay as are justly called for when a general rise of the price-level has become an established and acknowledged fact.

On the other hand, discontent among urban populations gets itself more constantly heard through the press, and more actively manifested through public meetings and other means of agitation, than does that of the rural element. The social unrest of recent years, with its accompaniment of radical proposals of all kinds—some of them sober and well worthy of consideration, others wild and thoughtless—has been

spread about almost exclusively in the cities. A striking illustration of the way in which city conditions, and especially city grievances, are apt to monopolize public attention is furnished by the history of the minimum-wage agitation, especially as regards saleswomen and other women employees. It is not proposed here to pass judgment, or even to hint at a judgment, on the merits of this extremely difficult question. The only object in referring to it is to point out how complete has been the absence of any reference to rural conditions in comparison with urban. How long may be the hours of work and how small the wages upon farms nobody stops to think; nor, although the drift from the country to the city is one of the most conspicuous subjects of general solicitude and lamentation, does any one stop to ask whether the assurance of a comfortable wage in city occupations would increase the lure of the great city to young women who under present conditions decide that, on the whole, with all its drawbacks, home life in the native village or on the native farm is to be preferred.

CHAPTER XII

THE MULTIPLE STANDARD AND THE COMPENSATED DOLLAR

AFTER all is said and done, the central fact remains that changes in the value of money, whether up or down, cause a great deal of injustice to multitudes of individuals and work serious injury to the community as a whole. To serve as a measure of value and as a standard of deferred payments have always been regarded as functions of money coördinate in importance with that of serving as the medium of exchange. One of the great reasons for the use of the precious metals—gold and silver in former times, and gold alone in the last few decades—as the monetary basis of the world's business, has been that they were fairly stable in value, and vastly more stable than anything else that was capable of being substituted for them. It was always recognized, however, that gold (or gold and silver) was subject to serious fluctuations of value—that is, of pur-

chasing power in relation to things in general—and that in so far as these fluctuations existed its functions as a measure of value and as a standard of deferred payments was imperfectly fulfilled. Accordingly, economists have long had under discussion the possibility of substituting some other method for the performance of these functions; some method which would emancipate the standard from dependence on the ups and downs of the value of a particular commodity, even a commodity so comparatively stable in value as is gold. And there has never been a time when the desirability of such steadying of the value of the standard was so impressed upon the minds of persons interested in the subject as has been the case in the last few years; for there has never been a time when the price-level has been subjected to two such profound and protracted disturbances, in opposite directions and in immediate succession, as the last twoscore years have witnessed.

To emancipate the standard of value from those fluctuations to which the dollar is exposed, nobody would propose the substitution of any other commodity in the place of gold. Such substitution would sacrifice the extraordinary

advantages which gold presents as a medium of exchange, and would not only fail to provide any compensating gain in the shape of greater stability of value, but would actually bring about far greater and more violent fluctuations than those to which gold has been subject. But the possibility of a multiple standard—a standard resting upon a combination of a large number of commodities—has long engaged the attention of economists, and, from time to time, also that of statesmen and men of affairs. If such a combination consisted of a number of articles fairly reflecting the whole range of human demands, each entering in a degree proportional to its actual importance, it might reasonably be held that he who received a given number of units under that standard was getting a fixed amount of value, whether it was to-day or ten years ago or ten years hence. As was explained in Chapter IV, this would not by any means be strictly true; very serious differences would still arise as regards the actual effect upon the different classes of the community of receiving what in some sense to the community as a whole was a fixed value. But at all events no such general and sweeping ups and downs in the true value of the standard

would take place as have actually been experienced under the gold standard. In so far as the selected combination of commodities might be accepted as correctly indicative of all, the price-level would be absolutely stationary.

The actual use of the commodities themselves as a medium of exchange would of course, however, be altogether impossible. The thing that passed from hand to hand would have to be purely representative. But it would not do to represent the list of commodities by means of certificates in the way in which gold coin or bullion is now represented. A gold certificate is an order for a certain amount of gold, redeemable in gold at any time at the Treasury. It would be absolutely out of the question to employ certificates under the multiple standard in this way. Nobody would want to take, and the Government could not undertake to give, a pound of beef, a hundredth of a bale of cotton, a tenth of a ton of steel, etc., in redemption of a multiple-standard certificate when its redemption was desired. The multiple standard would have to be put into effect in a less direct fashion. And the way in which it has usually been proposed to accomplish this is simple enough. The medium of exchange need not be

altered at all; all business would still be transacted in terms of gold dollars, the multiple standard coming in not as a substitute but as a corrective. This would be accomplished by means of the *index number*.

The index number is a number obtained by combining the prices of a designated series of commodities in such a way as to register the rise or fall of the general price-level. Many different methods have been employed for this purpose; it will be sufficient here to indicate one. A table is made at a given date showing the price of a suitably chosen amount of each of the commodities fixed upon. The sum of all these prices is taken. Whatever this sum may be, the index number at this initial date is called 100; and at any other date the index number is greater or less than 100 in whatever ratio the sum of the prices of the various items in the table is greater or less than it was at the initial date. Thus, suppose the initial date was Jan. 1, 1900, and the sum of the prices of the items in the table at that date was $250. Then if the sum of the prices on Jan. 1, 1901, was $240, the index number for Jan. 1, 1901, would be 96; and if the sum on Jan. 1, 1914, was $375, the index number for Jan. 1, 1914, would be 150.

How the index number would be used for the correction of fluctuations in the general price level hardly requires explanation. It would be understood that payments were to be made, not in the number of dollars expressly named in the agreement, but in such number of dollars as, at the time of payment, would have the purchasing power which the number named in the agreement had at the time of the agreement. Thus, supposing the index numbers to be as given in the foregoing illustration, a person borrowing a sum of money on Jan. 1, 1900, for a term of one year would, at the expiration of the year, give back to his creditor only 96 cents for every dollar he had borrowed; a loan made on Jan. 1, 1900, and maturing Jan. 1, 1914, would require at maturity the payment of $1.50 for every dollar borrowed; and a loan made on Jan. 1, 1901, and maturing Jan. 1, 1914, would necessitate the payment of a number of dollars bearing to the original number the ratio of 150 to 96—in other words, of $1.56¼ for every dollar borrowed. The same adjustment would be made in regard to interest payments as they fell due. Contracts of all kinds, and not only those that are in the nature of loans, might of course be framed upon this

same basis. As for such matters as rates of wages or salaries, it might be understood that, in the absence of any specific action to the contrary, the terms would be mechanically readjusted at stated intervals—say quarterly, semi-annually, or annually. If all these things were done, the affairs of the country—or of the world, as the case may be—would be carried on upon the basis of a multiple or tabular standard of value, though the actual medium of exchange continued to be, as it is now, gold and its direct representatives.

Over and above any question concerning the theoretical desirability of the multiple or tabular standard there is the question of the practical possibility of its introduction. And, to begin with, it is evidently perfectly possible for any two persons who have dealings with each other to introduce it on their own account so far as their mutual transactions are concerned. There is nothing to hinder a man who borrows money—provided the lender is willing—from agreeing to pay, upon the maturity of his loan, not the number of dollars which he borrowed, but the number of dollars which under the tabular standard would at that future date be equivalent to the original sum. In point of

fact, surprising as it may seem, contracts of just this kind were actually resorted to—not indeed by individuals, but by a State—at an early period in the history of our own country. As Prof. Willard C. Fisher has pointed out in the *Quarterly Journal of Economics* for May, 1913, the depreciation of paper money in Massachusetts in the early eighteenth century led to a number of legislative attempts to regulate the payment of debts in accordance with what was to all intents and purposes a tabular standard; and in the year 1780, when prices, as measured in the paper currency, had risen to a fabulous height and the future value of that currency was involved in the greatest doubt, the Massachusetts Legislature adopted the plan of issuing notes for debts due by the State, upon precisely the principle just explained. A facsimile of such a note, dated Jan. 1, 1780, is given by Professor Fisher in his paper; and as a concrete and actual example of this kind of contract may serve to make the idea more real to the reader, it seems worth while to reproduce its language here:

In behalf of the State of Massachusetts Bay, I, the subscriber, do hereby promise and oblige myself and

successors in the office of Treasurer of said State, to pay unto Abner Berrins, or to his order, the sum of Four Hundred Five Pounds, on or before the First Day of March in the Year of our Lord One Thousand Seven Hundred and Eighty-Four, with interest at six per cent. per annum: Both Principal and Interest to be paid in the then current Money of said State, in greater or less sum, according as Five Bushels of Corn, Sixty-Eight Pounds and four-seventh Parts of a Pound of Beef, Ten Pounds of Sheeps' Wool, and Sixteen Pounds of Sole Leather shall then cost more or less than One Hundred and Thirty Pounds current Money, at the then current prices of the said Articles.

With an index number officially declared by the Government (its computation being based upon the cost not of three or four commodities but of a long and carefully chosen list of items deliberately fixed upon and permanently adhered to) it would be easy for the parties to any contract to make its terms similar to those in the above note of the State of Massachusetts. It would call for the payment of a sum of money equal to, greater than, or less than the sum named in the contract according to the ratio of the index number at the time of payment to the index number at the date of the contract.

It might be thought that, if the Government

were simply to take charge of the ascertainment and official promulgation of the index number, its use would gradually become general through its voluntary adoption by a greater and greater number of business men and corporations. But there are the best of reasons for believing that nothing of the kind would happen. In special instances, the index number might be availed of; in the ordinary affairs of business it would be unable to make its way, and this not only because of the inertia which naturally stands in the way of such an innovation. Nor would it be only because of the troublesome computations which would stand between the business man and a knowledge of his situation from day to day, so long as some of his assets and liabilities were reckoned in plain dollars and others in dollars affected by the correction of the index number. There is a more deep-seated difficulty than this in the matter—a difficulty sufficiently indicated, perhaps, in these remarks in Prof. Irving Fisher's "The Purchasing Power of Money" (2nd edition, p. 336):

Business men naturally and properly prefer a uniform system of accounts to two systems warring with each other. They would complain of such a

double system of accounts in exactly the same way, and on exactly the same grounds, as they have always complained of the double system of accounts involved in international trade between gold and silver countries. A business man's profits constitute a narrow margin between receipts and expenses. If receipts and expenses could *both* be reckoned in the tabular standard, his profits would be more stable than if both were reckoned in money. But if he should pay some of his expenses, such as interest and wages, on a tabular basis, while his receipts remained on the gold basis, his profits would fluctuate far more than if both sides, or all items of the accounts, were in gold. . . . In either case, he would prefer to have the same standard on both sides of the account, even if this standard fluctuated, rather than have two standards, only one of which fluctuated; for his profits depend more on the parallelism between the two sides of his account than on the stability of either.

If, then, the multiple or tabular standard is ever to become the usual basis of business transactions, or even of those business transactions in which the element of time enters in an important degree, this must come about through its establishment, in some way, as the legal standard wherever the contrary is not stated. That is, speaking broadly, obligations calling for the payment of a given number of

dollars would have to be understood as legally requiring not the number designated in the bond, but such larger or smaller number as, according to the official index number, would, at the time of payment, be equivalent to that number. If such a system were established, the practice would undoubtedly arise of keeping accounts—at least for most of the larger purposes of business, and possibly for all purposes —not in dollars, but in tabular units. For example, in the supposititious case considered above, on Jan. 1, 1900, \$250 would have been the equivalent of 100 tabular units, and on Jan. 1, 1914, \$375 would have been that equivalent; and accordingly in books kept on the tabular basis, each dollar would at the former date be entered as 0.40 of a tabular unit, and at the latter date as $0.26\frac{2}{3}$ of a tabular unit. Thus, apart from the comparatively unimportant inconvenience of this arithmetical conversion, there would be no difficulty in a business man knowing where he stood. The objection above considered—the objection arising from the one-sidedness that would attach to the merely voluntary and incomplete use of the system—would either disappear or be reduced to comparative insignificance.

Unfortunately, however, the use of the multiple standard as the general and legally established basis of payment, while free from the objection applying to its partial and merely voluntary use, is open to an objection of a far more fundamental nature. It is all very well to speak of a permanent method of reckoning the index number; in point of fact, where there is legislation there is no such thing as permanence. Once the Government has undertaken so to adjust the basis of payment as to bring about equity between borrowers and lenders, between buyers and sellers, between insurance companies and annuitants, between landowners and lessees—for that matter, between itself and its salaried employees and pensioners—the propriety of the particular basis would always be open to question and to attack. Any great class that felt, at a given time, that its own interests were adversely affected by the particular system in use would at once begin to agitate for a change of the basis, or perhaps—and more probably—for an abolition of the whole system and a return to the old and simple metallic standard. Indeed, it would not be necessary, in order to bring this about, that the system should itself be the

cause of the grievance in question; if it merely happened that a great class of the population was, through *any* cause, in monetary distress, the temptation would at once suggest itself to compass such a modification of the law-made standard as would seem to promise relief. In a word, it would be impossible to keep the tabular standard "out of politics," and the uncertainty thus injected into the whole body of business would be an evil which, in all human probability, would far outweigh any good that could be accomplished in the way of the correction of price-fluctuations.

A substitute for the tabular standard has recently been urged with great ability by Prof. Irving Fisher. Essentially, this consists in varying the actual weight of the dollar in accordance with the variations of the index number, instead of varying the number of dollars of a fixed weight which are to be required for the payment of a given obligation. When the index number has changed from 100 to 110, for example, a man who had borrowed 100 dollars would not have to pay 110 dollars; he would pay only 100 dollars, but the Government would make the dollar 10 per cent. heavier than it had been. This could not be

actually accomplished as regards the coins that pass from hand to hand; but this difficulty is overcome in a way that may easily enough be indicated in its main features. In this country gold circulates almost entirely through the medium of certificates. A gold certificate represents, and is redeemable at the Treasury in, a certain number of gold dollars; and what this redemption really means is that the holder can get, instead of his certificate, a certain fixed weight of gold in coin or bullion. Under Professor Fisher's scheme of the "compensated dollar," the certificate would be redeemable in a weight of gold bullion varying with the index number; instead of 25.8 grains of gold, nine tenths fine, for each dollar (as is now the case), it would command 10 per cent. more of gold if the index number went up 10 per cent. And in like manner, any person depositing gold at the Treasury (or the Mint), instead of getting one dollar in certificates for every 25.8 grains of gold, nine tenths fine, would have to hand over 10 per cent. more if the index number had risen 10 per cent. As for the gold coins that do actually circulate, it would be necessary to have them of less weight than the standard —but redeemable in the standard weight of

bullion on demand—so as to prevent their being melted down when the standard fell; thus gold coins would continue to circulate but they would become of the nature of token money.*

The net result of all this would be that the weight of the dollar—or rather its virtual weight, the weight of bullion for which a dollar in certificates, or a dollar in gold coin, could be exchanged at the Treasury on demand—would vary up and down with the index number; so that fluctuations in the purchasing power of gold would be counteracted not by a change in the number of dollars required to satisfy a given obligation but by a change in the quantity of gold that each dollar would signify.

The advantage sought by this scheme of the "compensated dollar," as compared with that of the tabular standard, is that, so far as the business world in general is concerned, there would be no conscious process of correction or adjustment at all. People would receive and pay out dollars just as called for by their

*For the sake of simplicity, I have omitted an important detail in respect to the exchange of bullion for certificates and *vice versa;* in order to make the plan work smoothly, and so as not to offer opportunity for speculators to utilize prospective fluctuations of the index number to the disadvantage of the Government, it is necessary to make the Government's buying price of bullion (in certificates) slightly lower than its selling, or redemption, price.

contracts or other transactions; over the amount of gold in the dollar they would not need to trouble their heads unless they chose—and usually they would not choose. It is only very special and limited classes of persons to whom the bullion value of the dollar is a matter of direct business interest. The scheme therefore is a tempting one on its face; but it requires only a little thought to see that it fails to overcome the most vital objection to which the tabular standard is exposed. Whether people in their daily transactions did or did not think of the weight of the dollar, they would be perfectly aware that that weight was being changed from time to time for the purpose of regulating the price-level; and this knowledge would be quite sufficient, at any time of widespread discontent, to set on foot just such agitations for a change of the basis as would arise under the legalized tabular standard. And, unlike the tabular standard, the "compensated dollar" could not be introduced at all unless it were introduced by a governmental act, displacing the simple gold standard altogether. The tabular standard, indeed, is between the devil and the deep sea—between the difficulties of introducing it upon the voluntary plan and

the dangers that would attend its adoption by legislative act. But at least there is a choice between the two; and, indeed, there might be a combination of the two. The "compensated dollar," on the other hand, would mean an absolute abandonment of the simple gold standard, and a plunge into the deep waters of governmental interference with the basis of payments.*

In sum, it must be said, therefore, that there is little prospect of a multiple standard coming into use through gradual voluntary adoption, and that the objections to its introduction in any form by governmental act are so strong as to make that equally improbable. Nor, after everything is admitted that must be admitted in regard to the imperfection of the gold standard, should the fact that we are likely to continue for an indefinitely long future to abide by it be regarded as matter for melancholy complaining. There is something irritating, to be sure, in the thought that the gigantic busi-

*The question of international trade relations has not been touched upon; on this and other points an admirably lucid criticism of the plan is to be found in Prof. Taussig's article, "The Plan for a Compensated Dollar," in the *Quarterly Journal of Economics*, May, 1913. Prof. Fisher's article, "A Compensated Dollar," in the same Journal, February, 1913, gives a detailed statement of the method he proposes, and presents concisely the argument in its favor.

ness relations of the world should rest upon such a basis as the value of one particular metal; but instead of repining over this curious circumstance it would be far more justifiable to rejoice at the lucky chance that there exists one metal that is accepted the world over as a medium of exchange and is capable of playing as well as gold does the part of a fairly stable standard of value. To that fortunate accident is due the freedom of the business world from disturbances and uncertainties—not to speak of complexities and difficulties—of which the evil effect would dwarf into insignificance those that are suffered through the fluctuations of the value of gold, which, after all, do not take place with suddenness and do tend for the most part to be roughly corrected in one way and another by compensatory adjustments. A better standard would unquestionably be desirable; and it is conceivable that at some time in the future—whether through some scientific discovery that made gold cheaply attainable in practically unlimited quantities or through some other cause—the value of gold may vary so violently as to make resort to a better standard imperative. But so long as conditions in this regard are no worse than they have been—and there is no sign that

they are likely to be so—we must cling to the security and simplicity of the present system rather than grasp at a theoretical perfection which can only be attempted at the cost of sacrificing those invaluable attributes.

CHAPTER XIII

THE WAR, AND THE FUTURE

In discussing the various phases of the cost-of-living question, the great war has, in this little book, been entirely ignored. This has not been accidental. So far as statistical facts are concerned it has been unnecessary to make any mention of the war, since no attempt has been made to give statistical information of any kind; and where broad reference of arithmetical nature has been made to the actual course of prices it has seemed best to make these apply to the general developments of recent years rather than to the extraordinary and peculiar facts connected with the war. As for the other class of considerations related to the war—those that are not statistical or numerical but refer to general questions of cause and effect—the extreme complexity and difficulty with which any discussion of them is necessarily attended has seemed a sufficient reason for their exclusion. To elucidate in some degree

the broad principles governing the rise and fall of prices and their connection with the cost of living, as operative in normal times, has been the limit of what has here been attempted. Nevertheless, it may seem strange to pass the whole matter of the war in silence; and accordingly this little chapter is devoted to some remarks on the subject which, while making no attempt to estimate the actual effect of the mighty forces at work in the great cataclysm, may be not altogether amiss.

That the level of prices has risen during the war, and particularly in the countries most directly affected by it, is in no way surprising. The withdrawal of vast numbers of producers from the work of production to that of military service has seriously diminished the supply of many commodities, in the case of most of which the demand has not correspondingly diminished, and indeed in many cases has increased. The inevitable consequence of this is an increase in the price of those commodities, unless at the same time there should have happened a diminution in the supply of money. It is not inconceivable that in time of war such a diminution should take place. In older days, when a far less serious upset of normal con-

ditions would have led to hoarding on a great scale, the available supply of gold (or gold and silver) would in the event of a great war shrink very greatly, and prices, as measured in gold, would accordingly by so much tend to fall. The issue of irredeemable paper money might, of course, to an indefinite extent raise prices in that kind of currency; and this is just what happened in our own Civil War. But in the present gigantic conflict there has not been in any of the principal nations any manifestation of the hoarding tendency, but quite the contrary; in all of them, at least up to the present time, there has been such confidence in the future that both the governments and the banks have maintained their credit unimpaired, and indeed even stimulated. There has been some approach to a condition of irredeemable paper currency; but for the present it is sufficiently correct to say that the chief countries of Europe remain substantially on a gold basis, and yet that their volume of money—ordinary circulation and the credit substitutes for it—is at its normal magnitude or more. With supply of commodities impaired, with demand in many cases unimpaired or increased, and with monetary circulation as large or larger than ever,

it is natural that prices are high. It is rather interesting to note that the London *Economist's* index number for commodities in general rose 30 per cent. in the first nine months of the war, but that there was a very wide divergence in the showing for the various great groups of commodities. Thus the group of cereals and meats showed a rise of nearly 50 per cent; the rise for other food products was not quite 25 per cent.; minerals advanced 35 per cent.; and a miscellaneous group, which includes rubber, timber, ores, etc., showed a rise of 55 per cent. On the other hand, textiles did not rise at all, but actually showed a small decline; this decline was 4 per cent. at the end of the nine months, but at the end of the first five months of the war the decline was nearly 20 per cent. Is not all this just about what one might have expected in view of the varying urgency of demand in these various cases?

It is when we come to considering the future effects of the war upon the course of prices, the effects that will be felt after the war is over, that we find ourselves plunged into a sea of difficulties. Any prediction whatever is hazardous; yet it seems safe to say that the effect of the war will be to confirm for some time the

tendency to rising prices which had been so marked for a number of years preceding its outbreak. The two chief reasons for thinking that this will be the case are that the producing power of the world will have been diminished through extensive destruction of capital and also through the destruction of the lives of great numbers of efficient workers, and that the inflation of the currency which has been brought about in the warring countries by the various expedients adopted by the governments for the carrying on of the war will continue for some time after the war is over.

On the subject of the destruction of capital by wars and its restoration after the reëstablishment of peace, there has been a great deal of interesting discussion. By destruction of capital we mean the destruction of the means of production. The hardships inflicted by the destruction of consumable goods, except insofar as these might have served for future production, must not be reckoned in the same class; whatever suffering this may cause is endured at the time, and does not affect the world's capacity for supplying its needs in the future. Accordingly, a large part of the tremendous waste caused by the war must be

left out of account in estimating its more lasting economic effects. There remains, nevertheless, a prodigious impairment of the means of production—houses and machinery destroyed, fields laid waste and the resources of agriculturists swept away, bridges blown up, roads made impassable, railroads crippled. All these losses have to be made good before the world is again in a condition to carry on its productive activities on their old footing. So great is the devastation in an extensive war that it has always been a subject of wonder that the restoration of normal conditions takes place so rapidly as it does. The matter, however, is not so mysterious as it appears at first blush; the explanation lies chiefly in the fact that this process of restoration of capital is not the result of some strange and mighty effort called forth, as a new thing, by the dire exigency, but is a process that is silently going on all the time. Capital in most of its forms is being constantly used up and replaced, in the ordinary course of the processes of production. As John Stuart Mill puts it: "What the enemy have destroyed would have been destroyed in a little time by the inhabitants themselves; the wealth which they so rapidly reproduce would have needed

to be reproduced and would have been reproduced in any case, and probably in as short a time. Nothing is changed, except that during the reproduction they have not now the advantage of consuming what had been produced previously." In other words, there is a great deal of privation, arising from the failure of the productive apparatus to produce during the period in which it is being restored; but the restoration itself is, broadly speaking, not very different from what would have taken place in any event. And applying this idea to the question of supply and prices, the conclusion would be that within a few years the effects of the impairment of capital in diminishing supply and raising prices may be expected to have died out.

More lasting results in the direction of raising prices may be expected to arise from the inflation of the currency which, started by the exigencies of the war, is apt to continue long after it is over. In the case of a war of anything like ordinary magnitude, an immediate return, at its close, to absolute convertibility of paper into gold, in such countries as Germany or France—not to speak of England—might be looked upon as a certainty. With

the colossal conflict now going on, this certainty cannot be asserted. If, in any of these countries, there should come, upon the termination of the war, a considerable period during which business was done upon the basis of a depreciated paper currency, the gold driven out of circulation in those countries would swell the volume of gold money in the countries remaining on a gold basis—such as our own, for example—and would thus operate to raise gold money prices in the same way as would a like accession to the gold supply coming from the mines. But even if there were to be no such displacement of gold, and no such use of irredeemable paper money, there will have been introduced such a stretching of the capabilities of the existing system as will greatly swell the volume of the paper circulation resting upon a given volume of gold; and, once introduced, it will probably stay a long time, if not permanently.

For these reasons, the expectation widely entertained that any prospect of a check to the high-price tendency which may have existed a year ago has been subjected to serious postponement by the war is probably sound. It is not altogether impossible, however, that

elements of a wholly different kind may enter which will tend to produce the opposite effect. What condition of mind, as well as of material resources, Europe will find herself in if the war shall continue its work of devastation and exhaustion for another year, or another two years, no one can predict. Is it not possible that, when the fevered absorption of the peoples in the gigantic conflict is over, a state of mind may supervene in which men's confidence in the stability of many things now considered unshakeable will have been so weakened as to impair the strength of important elements in the vast credit system upon which business rests? If this should happen, and in a measure corresponding to the degree in which it happens, the efficacy of the world's monetary circulation will thereby be diminished; a given volume of money will not suffice to do the same volume of business upon a given scale of prices as it otherwise would; and accordingly the price-level will, insofar as the operation of this element in the situation is concerned, tend to fall.

Another point is worth mentioning: it is the hope of all lovers of humanity that when peace is reëstablished it will be upon a basis

that will relieve the world of the necessity of maintaining enormous military and naval expenditures in time of peace. It is far from certain that this longed-for end will be attained; but if it should be, the result will be a considerable increase in the productive capacity of the world, which, like any other such increase, will tend to lower the price-level. And it is quite worth while to point out that we must not in this connection regard a great class of public expenditures which are usually—and for the purposes of some arguments justly—classed with the expenditures for the maintenance of armies and navies and national defences. However burdensome, from the standpoint of the taxpayers, may be the annual drafts on the public treasury for the payment of interest on the public debt, these do not constitute a drain on the producing power of a nation. These interest payments merely transfer certain sums of money from the pockets of the taxpayers as such into the pockets of the bondholders as such; and there is no more reason to suppose—on the whole, indeed, there is doubtless less reason to suppose—that the bondholders will use the money unproductively than that the taxpayers in general will do so. What *does*

bring about waste of productive resources is the actual diversion of labor and capital to the service of war or of war preparedness. Whatever increase there may be in the productive capacity of a nation through the cutting down of this diversion of its resources will be a net gain for that capacity. The terrific increase in the public debts of the warring nations which is now going on will be a heavy load for their individual citizens to carry, but (insofar as the debts are held at home) they will not constitute an impairment of productive capacity.

Looking to the long future, and quite apart from any special considerations relating to the war, there is one thing that must always be borne in mind in any speculation as to the probable course of the price-level. The degree in which that level is affected by an addition to the volume of the world's money is a question not of difference but of ratio—not how many dollars have been added to the preëxisting supply, but by what percentage that supply has been increased. Of the three factors that determine the price-level—quantity of gold, condition of the mechanism of credit and business, and volume of business

to be transacted—all are going to vary in ways of which it is quite impossible to forecast the nature or extent. Advances in the first two tend to raise prices; advances in the last tend to lower them; and all three have in recent times been advancing enormously, and are likely to continue to do so for a long time to come. On which side the balance will lie no one can say with certainty. But at least we should bear in mind one simple fact as regards the first of the factors—that a given annual addition to the world's supply of gold is less and less effective toward the raising of prices as the total accumulated supply becomes greater and greater, since of course that fixed addition becomes a smaller and smaller percentage of the existing accumulation. It is largely on account of this fact that most economists decline to share the alarm felt by some over the possibility of a long-continued rise of prices so serious as to constitute a dangerous evil.

CHAPTER XIV

SOME GENERAL REFLECTIONS

As THE reader approaches the close of this little book he will doubtless have observed for himself what has been its main object. No attempt has been made in it to suggest any solution of the problem of the cost of living. It has been confined almost exclusively to the purpose of setting forth the principal elements that enter into the question, the end in view being the promotion of clear thinking rather than of any course of action. To the writer's mind this in itself is an end well worth seeking, without regard to any ulterior justification; but as a matter of fact the avoidance of error, and above all of fundamental error, has in this domain a practical importance which historical experience has shown to be quite as great as that of any constructive propaganda. It is to the prevalence of fundamental errors, or the want of clear recognition of fundamental truths, relating to money and prices, that many

of the most serious dangers to which the economic welfare of nations has been subjected must be ascribed. Even when the struggle to combat these dangers has been successful, the cost of it in the shape of disturbing, and sometimes paralyzing, uncertainties has often been enormous; and there have been times when unsound theories have gained the upper hand and been put into practice, with results even more disastrous. Even from the practical standpoint, therefore, no apology is needed for an attempt to strengthen the hold of the elementary principles of this subject upon the minds of the general public.

There is one error of thought, however, which, although referred to and discussed at some length in an early chapter of this book, has been almost lost sight of in the main body of it, and to which it therefore seems desirable to direct attention again in these concluding pages. Nearly all of the discussion has of necessity related to price—money price—and not to cost in its more proper sense. There is some danger, therefore, that the reader, while put on his guard against various errors relating to money and prices, may be more prone than ever to forget that there is such a thing

as cost in a sense that has nothing to do with money. Primarily, the cost of the various objects of human desire—the cost of living, if you please—is a question of the labor, the effort, the sacrifice, necessary to the obtaining of them; the function of money, or price, bears not upon this fundamental cost but upon those processes of exchange and distribution which determine the shares of the product that fall to the various individuals or classes which constitute the community. Accordingly, apart from all those questions of the cost of living which turn on the purchasing power of the monetary unit, there is the question of changes in the cost of living brought about by the greater or less ease with which the various things consumed or desired by men can be extracted from the earth, worked up into the desired forms, and brought to their final destination by the processes of transportation and of business organization. If the high cost of living of recent years had been brought about by an increase in the difficulty of production, the world would be confronted by questions very different from those with which we have here been chiefly concerned.

To some extent, so far as regards food prod-

ucts and certain raw materials, this has doubtless actually been the case; and this factor has not been overlooked in the preceding pages. Whether it constitutes an element of grave consequence in the present and prospective situation of the world is a question on which opinions may differ. In the matter of food supply, the increase of population and the more and more complete taking up of the available areas of the earth's surface tend to increase real cost, while the advance of scientific agriculture and the spread of intelligence among the agricultural populations of the world tend to diminish it. Which of these forces will preponderate in the near or remote future, and to what extent, is purely a matter of conjecture. The rate of increase of population, however, is steadily falling in nearly every country of the civilized world; the advance of science is proceeding without abatement; and it is perhaps safe to say that the spread of intelligence among large agricultural populations still pursuing primitive methods may be expected for some time to go on at such a rate as to supply a fair substitute for the opening up of new areas. There is, moreover, another consideration which bears very strongly on the impor-

tance of such increase in real cost as may, in spite of these counteracting factors, take place in the matter of food. Broadly speaking, there has for some generations been going on—and there is every reason to expect that it will continue to go on—a general rise in the standard of living, a rise consisting in large part of the inclusion, among the elements of an ordinary living, of a great number of requirements other than food which were formerly either unknown or classed as luxuries. The more of these elements that enter into the make-up of a "living," the less is the cost of living determined by the cost of food; and in nearly all of this class of things there is a constant tendency to diminution of real cost, through the advance of science, invention, and organization. Take it all in all, therefore, there seems little reason for serious anxiety on the score of prospective increase in the real cost of what may be called an ordinary living.

An aspect of the cost of living upon which we have barely touched, if at all, is that which relates not to production or acquisition but to consumption. One way, of course, in which any person can reduce his cost of living is to restrict his desires. Doubtless a great many

of us would be happier if we spent less; doubtless a large part of the expenditure of nearly everybody is determined by motives which a philosophic mind would find no difficulty in controlling or ignoring. A great part of our expenditure is due to a desire for keeping up appearances, for doing as others do, rather than for the gratification of any genuine personal taste. Among a very large proportion of the people who are above the stage of downright poverty, a hearty and whole-souled adoption of the doctrine of "the simple life" would afford a complete solution of the problem of the cost of living. There is no sign, however, that, measured by numbers, the spread of that doctrine is likely to be such as to make any notable impression on general ways of living. He who preaches it with eloquence may be listened to with interest; but so far as practice is concerned his voice is that of one crying in the wilderness. Nevertheless, it is exceedingly desirable that the ways in which this kind of bettering of one's condition may be effected should be brought home to people's minds; but the subject is one that belongs rather to the province of the moralist and the social philosopher than to that of the economist.

So far as legislative remedies for the high cost of living are concerned, any large proposal for this purpose is almost sure to deal with the monetary aspect of it. That in the opinion of the present writer no proposal of this nature thus far suggested is calculated to be of beneficial effect, was perhaps sufficiently indicated in the twelfth chapter. But it may be well here to set down in more concise and more general form the essential nature of the argument against such interference. To the specific argument against the legislative establishment of the multiple standard, or the compensated dollar, upon which most stress was laid above, it might be objected that even as things are, an agitation is always possible against the established standard. But there is a vital difference between the two states of things. As things are, the Government makes no pretense of securing equity as between the two parties to any contract or business arrangement. A dollar is so many grains of gold; everybody knows this, and knows that he is taking all the chances of its ups and downs in value. So long as this understanding is universal, the great and simple principle of the inviolability of contracts is all that has to be appealed to

by the defenders of the established standard whenever it is attacked. In point of fact, in the older commercial countries of the world it never is attacked; and we have reached a stage in our own country when such attack has become in the highest degree improbable. But if it should come, it is as nearly certain as any human forecast can be that the attack will be promptly and decisively defeated. If, on the other hand, the Government should undertake, upon any plan whatsoever, to regulate the standard with a view to securing an abstract equity, no great and impregnable principle could be appealed to for the undisturbed maintenance of the particular method that had been adopted. In this justification of an institution that is admittedly imperfect, but that has the transcendent merit of resting on a simple principle which all men can grasp and to which all men can be loyal, there is nothing singular. This same kind of sacrifice of an ideal perfection for the sake of securing a solid and unshakeable basis for the conduct of life is made in every vital concern of mankind. The institution of property, the institution of marriage, can easily be shown up as full of injustices and even absurdities; we hold them fast

not because they are perfect, but because to let them go would be to undermine foundations, for the sake of correcting what are, after all, however serious, merely faults in the superstructure.

THE END

A WORD ABOUT
THE AMERICAN BOOKS

The American Books

A Library of Good Citizenship

TO vote regularly and conscientiously and never to have been arrested for disorder is not the be-all and end-all of good citizenship. The good citizen is he or she who bears an active hand in cleansing and making merry the black spots of the neighborhood; who cherishes a home however small; who takes an increasingly intelligent interest in all that contributes to the country's welfare, and feels a keenly patriotic hope for the future of the nation.

For such citizens THE AMERICAN BOOKS are designed—a series of small volumes on current American problems. The keynote of the series will be the discussion of distinctively American movements and questions connected with the future prosperity of the United States.

The series was planned long before the great war, but it has derived added importance from the position which that great struggle has given America on the face of the globe. The United States, standing aloof from the suicidal bloodshed of the Old World, has necessarily become the peaceful arbiter of the earth's destinies and the flywheel to keep the world's industry revolving.

An inquiry into the meaning and tendency of American civilization to-day is thus not only a matter of interest but of patriotic duty. The publishers wish THE AMERICAN BOOKS to be a series of brief, authoritative manuals which will attempt to lay bare some of the problems that confront us to-day; written in popular terms that will inspire rather than discourage the casual reader. The series should prove not only of great interest to all American citizens who wish to aid in solving their country's pressing problems, but to every foreigner visiting this country who seeks an interpretation of the American point of view.

The publishers wish THE AMERICAN BOOKS to be written by the best men, and to this end they seek the widest publicity for the plan. They will be glad to receive suggestions as to appropriate titles for inclusion in the series and will welcome authoritative MSS submitted from any quarter. In particular they submit the plan to the consideration of the American colleges where the problems of the country are being studied. In science, literature, business, politics, in the arts of war and the arts of peace, the publishers will seek writers who have stood for fearless achievement or equally fearless failure, who will build up A LIBRARY OF GOOD CITIZENSHIP.

(For complete list of volumes in this series see opposite title page.)

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